

ITEM 188

ANNUAL DRAFT BUDGET FOR 2024/2025 FINANCIAL YEAR

(CHIEF FINANCIAL OFFICER)

RESOLVED

1. **That the following policies are under-review and will be submitted to Council with the Final Budget on May 2024.**
 - Budget Reporting policy;
 - Budget Virement policy;
 - Funding and Reserves policy;
 - Debtors Policy;
 - Infrastructure Policy;
 - Banking and Investment policy;
 - Assets Management Policy;
 - Commitments Policy;

 - Debts Policy;
 - Provisions, Contingencies and Accrual Policy;
 - Subsequent Events Policy;
 - Unauthorized, Irregular and Fruitless and Wasteful Expenditure Policy

 - Donation policy.

2. **That the Council approves the draft annual budget for the 2024/2025 financial year as outlined in the annexure.**

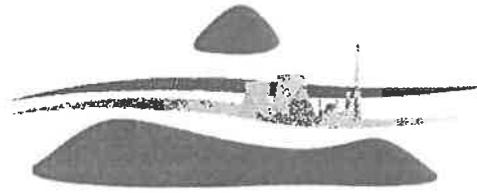
For Attention

*Chief
Financial
Officer*

FEZILE DABI DISTRICT MUNICIPALITY

2024 -03- 26

COUNCIL RESOLUTION



Fezile Dabi

District Municipality

BUDGET AND REPORTING POLICY

Date of approval by Council:

Council Resolution number:

FEZILE DABI DISTRICT MUNICIPALITY

Budget And Reporting Policy

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Definitions

Accounting Standards Board	Was established by the Public Finance Management Act to set standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.
A-Class Items	A-class items are those items that are not consumable or expendable.
Acquisition Management	Acquisition management is the process of procurement of goods or services and includes the: <ul style="list-style-type: none">• Identification of preferential policy objectives;• Determination of market strategy;• Application of depreciation rates;• Application of total cost of ownership principle;• Compilation of bid documentation, including conditions;• Determination of evaluation criteria;• Evaluation of bids and tabling of recommendations;• Compilation and signing of contract documents;• Contract administration.
Affordable	Affordable in relation to a PPP agreement, means that the financial obligations to be incurred by a Municipality in terms of the agreement can be met by: <ul style="list-style-type: none">• Funds designated in the Municipality's budget for the current year for the activity outsourced in terms of the agreement;• Funds destined for that activity in accordance with the future budgetary projections of the Municipality;• Any allocations of the Municipality;• Or a combination of such funds and allocations.
AGSA	Auditor-General of South Africa
Agreement	In relation to a <i>prohibited Practice in terms of the Competition Act 89 of 1998 as amended</i> , includes a contract, arrangement or understanding, whether or not legally enforceable
AMP	Asset Management Policy
AMSC	Asset Management Steering Committee (composed as per the Asset Management Policy)
AMU	Asset Management Unit (composed as per the Asset Management Policy)
AO	Accounting Officer – (Municipal Manager)

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Appropriation	Money set aside by Council for a specific purpose
Asset	<p>It is a resource controlled by an entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity. It has the following characteristics:</p> <p>It possesses service potential or future economic benefit that is expected to flow to the entity.</p> <p>It is controlled by the entity.</p> <p>It originates as a result of a past transaction or event.</p>
Asset Categories	<p>Are the five main asset categories defined by GRAP17. These are:</p> <ul style="list-style-type: none">• Community assets-are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.• Heritage assets-are defined as culturally significant resources. Examples are works of art, historical buildings and statues.• Infrastructure assets-are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.• Investment properties-are defined as properties that are acquired for economic and capital gains. Examples are office parks and underdeveloped land acquired for the purpose of resale in future years.• Other assets-are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.
Asset Custodian	Is a person in any position or level in the organisation entrusted with the safeguarding and use as well as the condition monitoring of a specific asset.
Asset Management	Is a broad function and includes a structured process of decision-making, planning and control over the acquisition, use, safeguarding and disposal of assets to maximise their service delivery potential and benefits, and to minimise their related risks and costs over their entire life.
Asset Manager	Is any senior official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the Municipality's assets in accordance with the Municipality's standards, policies, procedures and relevant guidelines.
Asset Register	Is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements.

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Assets	Are resources controlled by an entity as the result of past events and from which future economic benefits or future service potential is expected to flow to the entity.
Attractive Items	Are items of property, plant or equipment that are not significant enough for financial recognition but are attractive enough to warrant special safeguarding. These assets are also referred to as inventory.
BBBEE	Broad Based Black Economic Empowerment
BBBEEA	Broad Based Black Economic Empowerment Act
BEE	Black Economic Empowerment
Buy Out	Pay someone to give up an ownership.
Capital Assets	Are all assets with a life cycle of greater than one year and above the capitalisation threshold (where applicable). For example, this would include property, plant and equipment (infrastructure network, furniture, motor vehicles, computer equipment, etc.), intangible assets, and investment property.
Capitalisation	is the recognition of expenditure as an asset in the Financial Asset Register and accounting records
Capitalisation Threshold	is the value above which assets are treated as capital assets and entered into an asset register from which reporting in the financial statements (specifically the Statement of Financial Position) is extracted. This threshold serves as guidance only and should be set by the Accounting Officer through consultation with the Asset Management Steering Committee, and reviewed on an annual basis.
Carrying Amount	Is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses thereon.
CFO	The Chief Financial Officer of a municipality designated by Municipal Manager to be administratively in charge of the budgetary and treasury functions.
CIDB	Construction Industry Development Board
Class Of Property, Plant And Equipment	Means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements. (GRAP 17) (This definition of class applies to all capital assets.) Class of assets is also sometimes referred to as the asset hierarchy.
Competitive Bid	Means a bid in terms of a competitive bidding process.
Competitive Bidding Process	Means a competitive bidding process.
Component	Is a part of an asset with a significantly different useful life and significant cost in relation to the rest of the main asset. Component accounting

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	requires that each such part shall be separately accounted for and is treated separately for depreciation, recognition and de-recognition purposes. It is also referred to as separately depreciable parts.
Concerted Practice	Means co-operative, or coordinated conduct between <i>firms</i> , achieved through direct or indirect contact, that replaces their independent action, but which does not amount to an <i>agreement</i>
Cost	is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, where applicable, the amount attributed to that asset when construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other GRAP.
Cost Of Acquisition	Is all the costs incurred in bringing an item of plant, property or equipment to the required condition and location for its intended use.
Current Asset (Inventory, Debtors And Cash)	An asset that would, in the normal course of operations, be consumed or converted to cash within 12 months after the last reporting date.
Current Liabilities	Current and existing obligations which are due and payable within the subsequent twelve months including but not limited to: <ul style="list-style-type: none">• Creditors;▪ Bank Overdrafts; and• Short term portion of the long term liabilities.
Current Replacement Cost	Is the cost of replacing an existing asset with a modern asset of equivalent capacity.
Customer Service	It is the process of serving customers in accordance with acceptable, pre-determined standards in such a manner that it increases customer satisfaction and minimises times and costs.
Demand Management	Demand management ensures that the resources required to support the strategic objectives are delivered at the correct time, at the right price, location, quantity and quality that will satisfy the needs.
Depreciable Amount	Is the cost of an asset or other amount substituted for cost in the financial statements, less its residual value.
Depreciated Replacement Cost	Is a measure of the current value of an asset based on its current replacement cost less an allowance for deterioration of condition to date (based on the fraction of remaining useful life/expected useful life).
Depreciation	Depreciation refers to the reduction in the value of assets generally from wear and tear. The consumption of capital is recognised as a cost of production and an allowance for this is made before net profit is arrived at.

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Disposal Management	Disposal management is responsible to ensure that all unserviceable, redundant or obsolete assets are subjected to a formal process of doing away with movable assets in a cost-effective, but transparent and responsible manner. It also entails the maintenance of records and documents as prescribed.
DTI	Department of Trade and Industry
E-Class Accountable	Accounting in respect of those stores approved by the relevant Treasury as consumables.
E-Class Items	E-class items are consumable and expendable stores that cannot be repaired when it becomes unusable.
Economic Life	is either: (a) The period over which an asset is expected to yield economic benefits or service potential to one or more users, or (b) The number of production or similar units expected to be obtained from the asset by one or more users.
Economic Principle	Obtain the highest possible output for the lowest possible use of resources.
Economy Of Scale	Reductions in the average cost of a product in the long run, resulting from an expanded level of output
EME	Exempted Micro Enterprise
Enhancement/Rehabilitation	Is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential for example, remaining useful life, capacity, quality, and functionality.
Equipment	A-class accountable stores that are issued and accounted for on an inventory.
FA	Financial Accountant
Fair Value	Is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.
Final Award	In relation to bids or quotations submitted for a contract, means the final decision on which bid or quote to accept.
Financially Sustainable	in relation to the provision of a municipal service, means the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, including budgeted income, grants and subsidies for the service, is sufficient to cover the costs of— (a) The initial capital expenditure required for the service;

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	(b) Operating the service; and
	(c) Maintaining, repairing and replacing the physical assets used in the provision
Formal Written Price Quotation	Means quotations referred to in sub-section 11 of section 23 of this policy.
GRAP	Stands for "generally recognised accounting practice".
HDI	Historically Disadvantaged Individual
Historically Disadvantaged Individual	<p>Historically Disadvantaged Individual (HDI) means a South African citizen who:</p> <p>Had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983 (Act No 10 of 1983) or the Constitution of the Republic of South Africa, 1993 (Act no 200 of 1993) ("the Interim Constitution"); and/or</p> <ul style="list-style-type: none">• Is female and/or• Has a disability.• Provided that a person, who obtained South African citizenship on or after the coming into effect of the Interim Constitution, is deemed not to be an HDI.
HOD	Head/s of Department/s (Directors)
Horizontal Relationship	Means a relationship between competitors
HR	Human Resources
IDP	Integrated Development Plan
Immovable Assets	All non-produced, non-financial tangible assets, namely land, subsoil assets, water resources and some fixed tangible assets namely fixed structures (bridges, houses and roads).
In The Service Of The State	<p>Means to be a member of</p> <ul style="list-style-type: none">• Any municipal council,• Any provincial legislature; or• The National Assembly or the national Council of Provinces.• A member of the board of directors of any municipal entity.• An official of any Municipality or municipal entity.• An employee of any national or provincial department, national or provincial public entity or constitutional institution within the meaning of the Public Finance Management Act, 1999 (Act No 1 of 1999).

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- A member of the accounting authority of any national or provincial public entity; or
- An employee of Parliament or a provincial legislature.

Infrastructure

means assets that usually display some or all of the following characteristics:

- (a) They are part of a system or network;
- (b) They are specialised in nature and do not have alternative uses;
- (c) They are immovable; and
- (d) They may be subject to constraints on disposal

Intangible Assets

Intangible assets are trademarks, licenses and/or the legally enforceable rights associated with copyright and patents.

Integrated SCM

The foundation of the integrated SCM concept is total cost analysis, which is defined, as minimising the total cost of SCM elements.

Inventories

Including stock and stores (consumable stores, maintenance materials, spare parts, WIP, education/training course materials, client services). Properties/land held for sale. Strategic stocks (fuel supplies, precious stones and metals). Seized or forfeited property.

Inventory (Movable Assets) Management

It shall be possible to determine accountability for all A-class-accountable items at all times. Records shall therefore be available to describe the full extent of the responsibility of officials for equipment belonging to the institution on personal account or sectional inventories for general usage. Inventory (distribution) ledger accounts shall therefore be maintained for all A-class items.

Investments

In relation to funds of a municipality, means; preserving those funds not immediately required for the defraying of expenses and invested at approved financial institutions a person appointed in terms of section 83 of the Municipality Structures Act, 1998 (Act 117 of 1998) as the head of municipality administration;

IT

Information Technology

Items

An individual article or unit.

LCC

Life Cycle Costing

Lifecycle Costing

Lifecycle costing is a technique developed to identify and quantify all costs, initial and on-going, associated with a project or installation over a given period. Thus, it is a tool that forecasts the total cost of a purchase throughout its predetermined lifecycle.

List Of Accredited Prospective Providers

Means a list of accredited prospective providers which a Municipality or municipal entity must keep in terms of this policy.

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Logistics Management	Logistics management ensure that goods and services are available at the right place, time and quantities required to execute the functions of the Municipality.
Long Term Contract	Means a contract with a duration period exceeding one year.
Measurable Objectives	Measurable objectives identify very specific things that the Municipality intends doing or delivering in order to achieve the strategic objectives and ultimately the strategic goals it has set. There must therefore be a direct causal link running from the measurable objective to one or more of the strategic objectives.
MFMA	Municipal Finance Management Act
MFO	Manager: Financial Operations
Minor Asset	Is an asset other than a capital asset, which is fully depreciated in the year of acquisition.
MM	Municipal Manager (Accounting Officer)
Modern Equivalent Asset	Is an asset that replicates the existing asset with the most cost-effective asset performing the same level of service. This includes improvements in technology that may change the nature, life and value of an asset.
Movable Assets	Movable assets are assets that can be moved (e.g. machinery, equipment, vehicles, etc). All inventories and valuables and most fixed assets belong to this category.
MSA	Municipal Systems Act
MTEF	Medium Term Expenditure Framework
Municipal Functions	Means: A municipal service. Any other activity within the legal competence of a Municipality.
Municipal Manager	is the person defined as the Accounting Officer of a Municipality
Municipal Property	In relation to a Municipality, includes any movable, immovable or intellectual property, owned by or under the control of: A Municipality; or A municipal entity under the sole or shared control of the Municipality.
Municipal Stock	Stock certificate issued by the municipality as a proof of a long-term fixed period loan of which the capital is repayable at the end of the period. Interest is payable at predetermined intervals at a fixed rate.
Negotiable Certificate	A loan certificate that is tradable on the capital market.

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Net Present Value (NPV)	The sum that results when the discounted value of the expected costs of an investment are deducted from the discounted value of the expected returns. If the NPV is positive the project in question is potentially worth undertaking.
NIPP	National Industrial Participation Programme
Obsolete	No longer produced or used, out of date, to become obsolete by replacing it with something new.
Official	Official means: An employee of a Municipality; A person seconded to a Municipality to work as a member of the staff of the Municipality; A person contracted to a Municipality to work as a member of the staff of the Municipality otherwise than as an employee.
Operation And Maintenance Plan	The objective of operation and maintenance plans is to ensure assets remain appropriate to programme requirements, are efficiently utilised, and are maintained in the necessary condition to support programme delivery at the lowest possible long-term cost.
Other Applicable Legislation	Means any other legislation applicable to municipal supply chain management, including: The Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000). The Broad-Based Black Economic Empowerment Act, 2003 (Act No 53 of 2003). The Construction Industry Development Board Act, 2000 (Act No 38 of 2000).
Over-Utilisation	Over-utilisation can have adverse effects in terms of deterioration in asset performance and condition, shortening productive life and increasing recurrent operating and maintenance costs.
PCCAA	Prevention and Combating of Corrupt Activities Act. 2004
PPP	Public Private Partnership
PPPFA	Preferential Procurement Policy Framework Act (Act 5 of 2000)
Practitioner	A person who practises a profession or art.
Private Party	In terms of a PPP, excludes: A Municipality; A municipal entity; or An organ of state, including an institution listed in any of the schedules of the Public Finance Management Act, 1999 (Act 1 of 1999).

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Procedures	Policies are carried out by means of more detailed guidelines called "standard methods". A series of actions conducted in a certain order or manner.
Process	A series of actions or steps towards achieving a particular end.
Project Management	Project management is the planning, directing and controlling of an organisation's resources over a short term to ensure that specific objectives are successfully met.
Property, Plant And Equipment	are tangible assets that: a) Are expected to be used during more than one period. b) Are held by a Municipality for use in the production of goods or supply of goods or services, for rental to others, for administrative purpose; and
Provider	A provider is the private person or institution that provides supplies, services or works to the Government.
Public Funds	All monies received by the municipality to perform the function allocated to them.
Public-Private Partnership	Means a commercial transaction between a Municipality and a private party in terms of which the private party: <ul style="list-style-type: none">• Performs a municipal function on behalf of a Municipality.• Acquires the use of municipal property for its own commercial purposes.• Performs both a municipal function and acquires the use of municipal property as referred to above.• Assumes substantial financial, technical and operational risks in connection with the performance of the municipal function or use of municipal property• Receives a benefit for performing a municipal function or from utilising municipal property, by way of:• Consideration to be paid by the Municipality.• Charges or fees to be collected by the private party from users or customers of a service provided to them.• A combination of the above.
Quittance	The acknowledgement by the recipient of the receipt of issued stores, reflecting a signature, receipt voucher number and date of receipt.
RDP	Reconstruction and Development Programme
Recognition	Is the process by which expenditure is included in the Financial Asset Register as an asset.

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Recoverable Amount	Is the amount that the Municipality expects to recover from the future use of an asset, including its residual value on disposal.
Redundant	No longer needed or useful, superfluous (unnecessary).
Rehabilitation/Enhancement.	Is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential, for example, remaining useful life, capacity, quality, and functionality.
Remaining Useful Life	Is the time remaining (of the total estimated useful life) until an asset ceases to provide the required service level or economic usefulness.
Renewal	Is the work required to replace/ enhance/ rehabilitate an asset. Expenses on renewal works are considered capital expenditure.
Reproduction Cost	Is the cost of reproducing the asset in its present physical form (substantially the same materials and design).
Residual Value	Is the net amount that the Municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
RFI	Request for Information
RFP	Request for Proposal
RFQ	Request for Quotation
Risk Management	Risk management may be defined as the identification, measurement and economic control of risks that threaten the assets and earnings of a business or other enterprise.
Rules	Rules are statements that a specific action must or must not be taken in a given situation.
Salvage	The Act of saving any goods or property in danger of damage or destruction.
SANAS	South African National Accreditation Agency
SAPS	South African Police Services
SARS	South African Revenue Services
SBD	Standard Bidding Documents
SCM	Supply Chain Management
SCM Regulations	Means the Local Government: Municipal Finance Management Act, 2003: Municipal Supply Chain Management Regulations.
SCM Unit	Supply Chain Management Unit

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SCMP	Supply Chain Management Policy
SCO 1/2/3	Supply Chain Officer 1/2/3
SEA	Senior Expenditure Accountant
Security	A lien, pledge, mortgage, cession or other form of collateral intended to secure the interests of the creditor
Senior Management Team	Are the incumbent of post level 1, 2 and 3 in each directorate being the "senior manager" and everyone up to two levels below them.
Senior Manager	Is a manager referred to in section 56 of the Municipal Systems Act being someone reporting directly to the Municipal Manager.
Service Potential	Is a tangible capital asset's output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life.
SFA	Senior Financial Accountant (Asset Manager & Head of Asset Management Unit)
SITA	State Information Technology Agency
SLA	Service Level Agreement
SMME	Means a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria opposite the smallest relevant size or class. It is a small, medium and micro enterprises conducting business with the municipality, with workforce of between 20 and 199 people and an annual turnover of less than R 10 million.
Sourcing	Find out where to obtain.
SP	Service Provider
SSCO	Senior Supply Chain Officer
Stewardship	"Stewardship" is the act of taking care of and managing property, plant or equipment on behalf of another.
Stores/Stock	All movable state property/assets that are kept in stock for issue purposes.
Strategic Goals	Strategic goals are areas of organisational performance that are critical to the achievement of the mission. They are statements that describe the strategic direction of the organisation.

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Strategic Objectives	Strategic objectives are more concrete and specific than strategic goals. They should give a clear indication of what the Municipality intends doing or producing in order to achieve the strategic goals it has set for itself. As such strategic objectives would normally describe high-level outputs or "results" of actions that the Municipality intends taking.
TCO	Total Cost of Ownership
The MFMA	Means the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003).
TOR	Terms of Reference
Transfer	Shifting of allocated funds from one department (vote), line-item (vote number) or both to the other.
Treasury Guidelines	Means the guidelines on supply chain management issued by the Minister in terms of section 168 of the Act.
Under-Utilisation	Under-utilisation will increase the unit cost of programme delivery and may prompt the purchase of new assets when they are not required.
Useful Life	is either: (a) The estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the Municipality, (b) The estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the Municipality.
Value For Money	In relation to public-private partnership agreements, means that the performance of a private party in terms of the agreement will result in a net benefit to the Municipality in terms of cost, price, quality, quantity, risk transfer or any combination of those factors.
Virement	The agreed transfer of funds from one budget heading, to which it has been allocated, to another budget heading.
Written Or Verbal Quotations	Means quotations referred to in sub-section 11 of section 23 of this policy.

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Budget And Reporting Policy

1 Objective

- 1.1. To set out the budgeting policy which the Municipality will follow in preparing each annual budget and subsequent review / adjustment budget.
- 1.2. Set up guidelines for planning and reporting on the Medium Term Expenditure Framework's (MTEF) budgeting and Expenditure.
- 1.3. Ensuring compliance with norms, standards and other requirements as established by the National Treasury.

2 Budget Steering Committee

- 2.1. The Executive Mayor shall establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging his responsibilities as set out in section 53 of Municipal Finance Management Act.
- 2.2. The budget steering committee shall consist of the following persons:
 - 2.2.1. The Councillor responsible for financial matters;
 - 2.2.2. The Accounting Officer (Municipal Manager);
 - 2.2.3. The Chief Financial Officer;
 - 2.2.4. The Manager / Officer responsible for budgeting;
 - 2.2.5. The Manager responsible for Integrated Development Planning;
 - 2.2.6. Any technical expert on infrastructure; and
 - 2.2.7. Heads of the Departments of the Municipality / Senior Managers, with at least three largest votes.
- 2.3. The Chief Financial Officer and senior managers shall undertake the technical preparation of the budget. The Councillor responsible for financial matters will have first election of choosing the chairperson of the Budget Committee.

3 Budgeting Principles to Be Followed

3.1. This means that the compilation of the Medium-Term Budget and Expenditure Framework (MTREF) must be compliant with the mSCOA classification framework.

In summary, mSCOA compliance in respect of the tabled MTREF and IDP submission means that the data string uploaded to the LG Database portal must meet the following requirements:

- No mapping;
- Correct use of all segments;
- Seamless integration of core system with sub-systems (municipalities must ensure the integration of the Debtors, Payroll and Asset sub-systems); and
- Integrated budgeting facility directly linked to the IDP and SDBIP facilities on the system.

It is imperative that Budget Manager is familiar with the addendum to MFMA Circular No. 80 which describes what constitutes mSCOA compliance by 1 July 2017. National Treasury has a dedicated website to support municipalities with their mSCOA readiness efforts.

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- 3.2. Except in so far as capital projects represent a contractual commitment to the Municipality extending over more than one financial year, the annual capital budget shall be prepared from a zero base.
- 3.3. The capital budget component of the annual or adjustments budget shall only be approved by the Council if it has been properly balanced, that is, if the sources of finance which are realistically envisaged to fund the budget equal the proposed capital expenses.
- 3.4. Before approving the capital budget component of the annual or adjustments budget, the Council shall consider the impact on any aspects of the present and future operating budgets of the Municipality in relation to matters not limited to: finance charges to be incurred on external loans; depreciation of fixed assets; and maintenance of fixed assets.
- 3.5. Each annual and adjustments budget shall be led by revenue including cash backed reserves not committed for other purposes being on par with expenditure or revenue being in excess of expenditure.
- 3.6. Any unappropriated surplus from previous financial years can be used to balance any annual or adjustments budget. Priority shall always be placed on essential services (water, sanitation, power supply, medical services and other related services) followed by addressing deficit on capital expenditure. With the two priorities satisfactorily addressed, such surplus shall be utilised at the discretion of the budget committee.
- 3.7. An impending operating deficit shall be made good in an adjustments budget, but if an operating deficit arises at the end of a financial year, notwithstanding the precautionary measures adopted by the Council, such deficit shall immediately be made good in the annual or adjustments budget for the ensuing financial year.
- 3.8. Depreciation and finance charges together shall not exceed 20% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget. Total finance charges payable by the Municipality shall be charged to "Council General" vote.
- 3.9. The allocation of interest earned on the Municipality's investments shall be budgeted for in terms of the Banking and investment policy. This interest earned shall be added to budgeted revenue.
- 3.10. The Municipality shall adequately provide in each annual and adjustments budget for the maintenance of its assets in accordance with its fixed asset management and accounting policy. A range of 1-8% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance and the municipality must provide a detailed explanation and assurance that the budgeted amount is adequate to secure the ongoing wealth of the municipality's infrastructure supported by reference to its asset management plan. In the preparation of the draft operating budget component of the annual budget, the allowable budgetary increment shall relate to the total amount provided for each budget vote, and the head of the department, service or function concerned shall have the right to allocate the total budgeted amount to the line-items within such vote, except in so far as the line-item provisions relate to matters determined by the Chief financial officer in terms of the Municipality's approved policies and contractual and statutory commitments (for example, depreciation charges, finance charges, insurance costs, contribution to the COID, skills development levies payable).
- 3.11. Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared, and shall not exceed 50% of the aggregate operating budget component of the annual or adjustments budget. For purposes of applying this principle, the remuneration of political office bearers and other Councillors shall be excluded from this limit.
- 3.12. The Senior Manager (Head of the Department), service or function to which each budget vote relates shall justify the allocation of the aggregate budget for such vote to the various line-items within the vote to the Budget steering committee, service or function concerned. In motivating the allocations made to and within the vote, the Head of Department, service or function concerned shall provide the relevant Portfolio Committee with appropriate quarterly performance indicators and service delivery targets pertaining to the budget. Such indicators and targets shall be prepared with the approval of the Municipal Manager and the Mayor.

4 Responsibilities of the Chief Financial Officer

- 4.1. Without derogating in any way from the legal responsibilities of the Municipal Manager as accounting officer, the Chief Financial Officer shall be responsible for preparing the draft annual capital and operating budgets (including the budget components required for the ensuing financial years), any required adjustments budgets, the projections of revenues and expenses for the service delivery and budget implementation plan (including the alignment of such projections with the cash management programme prepared in terms of the Banking and investments policy), and shall be accountable to the Municipal Manager in regard to the performance of these functions.
- 4.2. The Municipal Manager shall ensure that all Heads of Departments provide the inputs required by the Chief financial officer into these budget processes. The Municipal Manager shall have confirmation from each head of department at least thirty calendar days prior to the submission deadline of the Chief Financial Officer.
- 4.3. The Chief Financial Officer shall draft the budget timetable for the ensuing financial year for the Executive Mayor's approval, and shall indicate in such timetable the target dates for the draft revision of the annual budget and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance Management Act, and target dates for the submission of all the budget-related documentation to the Executive Mayor, Budget Steering Committee, and Council. The Mayor shall update the Council on progress regarding the budget time table.
- 4.4. Except where the Chief Financial Officer, with the consent of the Executive Mayor and Municipal Manager, decides otherwise, the sequence in which each annual budget and adjustments budget shall be prepared, shall be: first, the capital component, and second, the operating component. The operating component shall duly reflect the impact of the capital component on:
 - 4.4.1. depreciation charges;
 - 4.4.2. repairs and maintenance expenses;
 - 4.4.3. interest payable on external borrowings; and
 - 4.4.4. other operating expenses.
- 4.5. In preparing the operating budget, the Chief Financial Officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the Chief Financial Officer shall properly and adequately reflect the organisational structure of the Municipality, and further in so doing shall comply – in so far as the organisational structure permits – also with the prescribed budget format of the National Treasury.
- 4.6. The Chief Financial Officer shall determine the depreciation expenses to be charged to each vote, the apportionment of interest payable to the appropriate votes, and the contributions to the provisions for bad debts, and accrued leave entitlements.
- 4.7. The Chief Financial Officer shall also, again with the approval of the Executive Mayor and the Municipal Manager, and having regard to the Municipality's current financial performance, and recommendations issued by the National Treasury, determine the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.
- 4.8. The Base can be the prior year's budget or accruals in the event that the actual expenditure is less, where the Director heading a department requires more funds due to the nature of a financial planning or project planning cycle that may only start absorbing the required funds in a specific financial year.
- 4.9. The Chief Financial Officer shall compile monthly, quarterly and annual budget reports, with recommendations, comparing actual results with budgeted projections, and the Heads of Departments shall timeously and adequately furnish the Chief Financial Officer with all explanations required for deviations from the budget. The Chief Financial Officer shall submit these reports to the Executive

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Mayor and Finance Committee, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.

- 4.10. The Chief financial officer shall provide administrative support to the Executive Mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets. This process can involve the support or facilitation by the Municipal Manager where required by either the Mayor or the Chief Financial Officer.
- 4.11. The Chief Financial Officer shall ensure that the annual and adjustments budgets comply with the requirements of the National Treasury, Provincial Treasury, reflect the budget priorities determined by the Executive Mayor, are aligned with the Integrated Development Plan, and comply with all budget-related policies, and shall make recommendations to the Executive Mayor on the revision of the Integrated Development Plan and the budget-related policies where these are indicated. Where non performance is reported, there shall be accompanying justification in line with policies and regulatory prescripts.
- 4.12. The Chief Financial Officer shall make recommendations on the financing of the draft capital budget for the ensuing and future financial years, indicating the impact of viable alternative financing scenarios on future expenses, and specifically commenting on the relative financial merits of internal and external financing options.
- 4.13. The Chief Financial Officer shall determine the basis for allocating overhead expenses not directly chargeable to votes. The expenses associated with the democratic process shall be allocated to a separate vote, and shall not be charged out as an overhead.
- 4.14. The Chief Financial Officer shall ensure that the allocations from other organs of state are properly reflected in the annual and adjustments budget, and that the estimated expenses against such allocations (other than the equitable share) are appropriately recorded.
- 4.15. The Chief Financial Officer shall ensure that the Municipal Manager and other Senior Managers are appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets.

5 Annual Budgets

- 5.1. Format
 - 5.1.1. The annual budget and the supporting documentation shall be prepared in a format specified in Municipal Budget and Reporting Regulations, 2008.
- 5.2. Funding of the annual budget
 - 5.2.1. The funding of annual budget expenditure shall be estimated in accordance with the assumptions and methodologies set out by the National Treasury and shall be consistent with the trends, current and past, of actual funding collected or received; and
 - 5.2.2. Realistically anticipated revenues to be received from the National or Provincial government, National or Provincial entities, donors or any other source for which an acceptable documentation which guarantees the funds is available.
 - 5.2.3. Estimated provisions for revenues from rates and taxes, levies or other charges that will not be collected shall be budgeted for separately and reflected on the expenditure side of the Municipality's annual budget and not netted out from budgeted revenue.
 - 5.2.4. The annual budget shall show total capital expenditure and different sources of funding. All different sources of funding shown in the capital expenditure must be available and not committed for other purposes.

6 Annual Budget Preparation Process

- 6.1. Formulation of the budget

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- 6.1.1. The Chief Financial Officer and the Manager responsible for INTEGRATED DEVELOPMENT PLAN shall draft the INTEGRATED DEVELOPMENT PLAN process plan as well as the budget timetable for the Municipality for the ensuing financial year for tabling by the Mayor by 31 August each year for approval.
- 6.1.2. Both the Budget timetable and the INTEGRATED DEVELOPMENT PLAN process plan and shall indicate the key deadlines for the preparation.
- 6.1.3. Approval of the annual budget and the review of the INTEGRATED DEVELOPMENT PLAN. Such target dates shall follow the prescriptions of the Municipal Finance Management Act, Municipal Budget and Reporting Regulations as well as any guidelines set by the National Treasury.
- 6.2. **Tabling of the annual budget**
 - 6.2.1. An annual budget and supporting documentation tabled in Council shall be in a prescribed format in terms of Municipal Budgeting and Reporting Regulations, 2008 mSCOA compliant and be credible and realistic such that it is capable of being approved and implemented as tabled.
 - 6.2.2. The Executive Mayor shall table the draft budget to Council by 31 March (90 days before the start of the new budget year) together with the draft resolutions and budget related policies.
- 6.3. **Public participation and submission of draft budget for consultation**
 - 6.3.1. Immediately after the draft annual budget has been tabled to Council, the Municipality must convene hearings on the draft budget and invite the public, and stakeholder organisations to make representation at the Council hearings and to submit comments in response to the draft budget.
 - 6.3.2. The Chief Financial Officer shall publicise, in terms of section 21A of Municipal Systems Act, summaries of the annual budget and supporting documentation in alternate languages dominant in the community information relevant to each ward of the Municipality.
 - 6.3.3. The Chief Financial Officer shall submit to the National Treasury and the Provincial Treasury the tabled budget together with other supporting documents in both print and electronic versions.
 - 6.3.4. After considering all budget submissions, the Council shall give the mayor an opportunity to respond to the submissions.
- 6.4. **Consideration and Approval of the Annual Budget**
 - 6.4.1. At least 30 days before the start of the new budget year (i.e. end of May), the Mayor shall table to Council the following documents in relation to the annual budget:
 - A report summarising community's views on the budget;
 - Any comments on the annual budget received from the National Treasury and the Provincial Treasury;
 - Any comments on the annual budget received from any other organ of state including any affected Municipality; and
 - Any comments of the annual budget received from any other stakeholder.
 - 6.4.2. The Council shall consider the medium term expenditure framework budget for approval not later than 31 May annually.
 - 6.4.3. Before approving the tabled annual budget and supporting documentations, the Council shall consider full implications, financial and otherwise, of such budget and supporting documents.
 - 6.4.4. Within 10 working days after the Council has approved the annual budget, the Chief Financial Officer shall, in accordance with section 21A of Municipal Systems Act, publicise the approved

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annual budget and supporting documentation and the resolutions passed by the Council in relation to the annual budget.

6.5. Service Delivery and Budget Implementation Plan

6.5.1. The Mayor shall approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the annual budget by Council.

6.5.2. The **SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN** shall include the following particulars as a minimum:

- Monthly projections of revenue to be collected for each source;
- Monthly projections of expenditure (operating and capital) and revenue for each vote;
- Quarterly projections of service delivery targets and performance indicators for each vote;
- Ward information for expenditure and service delivery; and
- Detailed capital works plan broken down by ward over three years.

6.5.3. The Chief Financial Officer shall make the **SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN** public in terms of section 21A of Municipal Systems Act within 10 days after approval by the Mayor.

6.6. Submission of Approved Annual Budget and Other Documentation

6.6.1. The Chief Financial Officer delegate shall submit to the National Treasury and Provincial Treasury in both printed and electronic form the following:

- The annual budget and supporting documentation within 10 days after the Council has approved the annual budget;
- The approved **SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN** within 10 days after being approved by the mayor; and
- Any other information as may be required by the National and / or Provincial Treasury.

7 Adjustments Budget

7.1. An adjustments budget shall be tabled to Council any time after mid-year budget and performance assessment has been tabled in Council, but not later than 28 February of the financial year in question.

7.2. Only one (1) main adjustments budget shall be tabled to Council during a financial year, except when additional revenues are made available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for.

7.3. The Chief Financial Officer, in consultation with the Municipal Manager, shall promptly adjust budgeted revenues and expenses if a material under-realisation of revenues arises or is apparent.

7.4. If the national or provincial adjustments allocate additional revenues to the Municipality, the Mayor shall, at the next available Council meeting, but within 60 days of the approval of the relevant provincial or national adjustments budget, table in Council an adjustment budget to appropriate these additional revenues.

7.5. The Council shall in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendations of the Mayor. The Council shall also authorise the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the Council.

7.6. The Chief Financial Officer shall ensure that the adjustments budget and supporting documentation are in a format prescribed by Municipal Budget and Reporting Regulations, 2008 reflect the budget

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priorities determined by the mayor, are aligned with the INTEGRATED DEVELOPMENT PLAN, and comply with all budget-related policies, and shall make recommendations to the mayor on the revision of the INTEGRATED DEVELOPMENT PLAN and the budget-related policies where these are indicated.

- 7.7. An adjustments budget must contain all of the following:
- 7.8. An explanation of how the adjustments affect the approved annual budget;
- 7.9. Appropriate motivations for material adjustments;
- 7.10. An explanation of the impact of any increased spending on the current and future annual budgets; and
- 7.11. How the adjustments budget is funded
- 7.12. Unless if necessitated by financial recovery plan, an adjustments budget will not be considered solely to increase tariffs during a financial year.
- 7.13. The policy guidelines on tabling, consideration and approval, publication and submission of the annual budget shall also apply to adjustment budgets.

8 Approval of Capital Projects

- 8.1. Before approving a capital project, the Council shall consider the following:
 - 8.1.1. The projected cost of the project over all the ensuing financial years until the project becomes operational,
 - 8.1.2. Future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).
- 8.2. The following capital projects may be approved by Council either individually or as part of consolidated capital projects:
 - 8.2.1. Capital projects of which the total projected cost is below 5% of Municipality's budgeted revenue, in the case of the Municipality's approved total revenue in terms of the annual budget does not exceed R 250 million.
 - 8.2.2. Capital projects of which the total projected cost is below 8% of Municipality's budgeted revenue, in the case of the Municipality's approved total revenue in terms of the annual budget is greater than R 250 million but not exceeding R 500 million.
 - 8.2.3. Capital projects of which the total projected cost is below R 50 million, in the case of the Municipality's approved total revenue in terms of the annual budget is greater than R 500 million.
- 8.3. Expenditure needed for capital projects below the values set out above, shall be included in the annual budget before the project is approved in terms of section 19(3) of MFMA.
- 8.4. For the capital projects approved as set out above, the Accounting Officer must, within ten days after the Council has given individual approval for a capital project, and in terms of section 21A of Municipal Systems Act, make public the Council's resolution approving the capital project and the nature, location and the total projected cost.

9 Funding Asset Management Plans

- 9.1. Municipalities are obliged to plan for the level of services they need and how they will use the available funds to maintain and expand those services.
- 9.2. For this purpose, the Municipal Manager shall:
 - 9.2.1. Ensure that each approved asset management plan is appropriately funded through the budget;

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- 9.2.2. Ensure that asset management plans also include asset maintenance plans to ensure provision in the budget for appropriate funding to guarantee that existing assets continue to perform at the required levels and standards of service; and
- 9.2.3. Ensure that asset management plans informs the maintenance budget (i.e. planned maintenance as well as a possible percentage built in for unforeseen circumstances based on experiences in prior years).

10 Quality Certification

- 10.1. Whenever an annual budget and supporting documentation, adjustment budget and supporting documentation or an in- year report is submitted to the Executive mayor, tabled in Council, made public or submitted to another organ of state, it must be accompanied by a QUALITY CERTIFICATE complying with Schedule A, B or C of Municipal Budget and Reporting Regulations, 2008 and signed by the Accounting Officer.
- 10.2. The Accounting Officer shall take all reasonable steps to ensure that the basis of measurement and accounting policies underpinning the Municipality's annual financial statements are the same as those used in the preparation of the Municipality's annual budget and supporting documentation, its adjustment budget and supporting documentation and the in-year reports, and any differences or changes between financial years are explicitly noted.
- 10.3. The Accounting Officer in signing the quality certificate, certifies that, where appropriate, all ratepayers and consumers are accounted for in the annual budget calculations and that revenue related records and information are up to date and consistent with revenue projections in the annual budget.

11 Budget Implementation and Monitoring

- 11.1. The Municipal Manager with the assistance of the Chief Financial Officer and other senior managers are responsible for the implementation of the budget, and shall take reasonable steps to ensure that:
 - 11.1.1. Funds are spent in accordance with the budget;
 - 11.1.2. Expenses are reduced if expected revenues are less than projected; and
 - 11.1.3. Revenues and expenses are properly monitored.
- 11.2. Shifting of Funds
 - 11.2.1. Shifting of funds shall be dealt with in terms of the Budget Virements and Transfers policy.
- 11.3. Unforeseen and unavoidable expenditure
 - 11.3.1. Unforeseen and unavoidable expenditure are regarded as expenditure that could not be foreseen at the time the annual budget of the Municipality was prepared and approved, despite all due care having been exercised, and the delay that will be caused by a pending adjustment budget may:
 - Result in significant financial loss for the Municipality;
 - Cause a disruption or suspension or serious threat to the continuation of municipal services; and
 - Lead to loss of life or serious injury or significant damage to property.
 - 11.3.2. A Head of the Department or Senior Manager upon becoming aware of impending unforeseen or unavoidable expenditure, must immediately inform the Municipal Manager or his/ her delegate, providing full details on the unforeseen expenditure, and detailing the consequences of not incurring the expenditure as well as an indication of the expected cost implication (both for the current year as well as any recurring cost resulting from the initial cost).
 - 11.3.3. The Mayor may, in circumstances as detailed above, authorise unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.

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- 11.3.4. The amount of expenditure that the mayor may authorise of unforeseen and unavoidable expenditure shall be limited as follows:
- 5% of the Municipality's own revenue if the approved total revenue in the current budget does not exceed R 250 million;
 - The greater of R 5 million or 4% of the Municipality's own revenue if the approved total revenue in the current budget does exceeds R 250 million but is less that R 500 million; and
 - R 15 million if the Municipality's approved total revenue in the current budget exceeds R 500 million
- 11.3.5. The Chief Financial Officer shall keep a register of all unforeseen and unavoidable expenditure for reporting purposes.
- 11.3.6. The Mayor shall report to all the approved unforeseen and unavoidable expenditure to the next ordinary Council meeting following the incurrence of such expenditure.
- 11.3.7. The Chief Financial Officer shall appropriate the approved unforeseen and unavoidable expenditure in an adjustments budget.
- 11.4. Management of the budget
- 11.4.1. The Municipal Manager shall be responsible for implementing the Municipality's approved budget, and shall ensure that unauthorised, irregular or fruitless and wasteful expenditure is prevented.
- 11.4.2. The Chief Financial Officer and other senior managers shall assist the Municipal Manager in ensuring that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget.
- 11.4.3. The Chief Financial Officer shall also ensure that revenue and expenditure are properly monitored, and where necessary must prepare an adjustments budget and submit it to the mayor for consideration and tabling in the municipal Council.
- 11.4.4. The Municipal Manager is responsible to ensure that no municipal funds are transferred or paid into funds established in terms of section 12 of MFMA.
- 11.5. Oversight
- 11.5.1. The Mayor shall ensure that the Municipality approves its annual budget before the start of the budget year.
- 11.5.2. The Mayor shall provide general political guidance over the fiscal and financial affairs of the Municipality by monitoring the implementation of the budget.
- 11.5.3. Within the ambits of the MFMA, the mayor shall oversee the exercise of responsibilities assigned to the Municipal Manager and the Chief Financial Officer, but may not interfere in the exercise of those responsibilities.
- 11.5.4. The Mayor must take all reasonable steps to ensure that the Municipality performs its constitutional and statutory functions within the limits of the Municipality's approved budget.
- 11.5.5. Within 30 days of the end of each quarter, the mayor must submit a report to the Council on the implementation of the budget and the financial state of affairs of the Municipality.

12 Reporting

12.1. Monthly Reporting

- 12.1.1. The Chief Financial Officer shall, not later than 10 working days after the end of each calendar month, submit to the Municipal Manager, Mayor and Provincial and National Treasury monthly budget statements in terms of section 71 of MFMA on the state of the

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Municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

- 12.1.2. The monthly budget statement shall be in a format specified in Schedule C of Municipal Budget and Reporting Regulations, 2008, taking into account any guidelines issued by the National Treasury.
- 12.1.3. The Mayor may table to the next Council meeting monthly budget statement(s), accompanied by his report in a format set out in Schedule C of Municipal Budget and Reporting Regulations, 2008.
- 12.1.4. The Chief Financial Officer must place the monthly budget reports on the Municipality's website.
- 12.1.5. **The Accounting Officer of a municipality must submit to the Mayor a statement (referred to in paragraph 12.1.1) of this policy, it shall be in a format (referred to in paragraph 12.1.2) of this policy reflecting necessary explanation of any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote and shall be calculated as follows; the percentage set below shall not apply to "one-time" expenses/one-off expenses.**

VARIANCE TOLERANCE

Minimum (R) Maximum (%)

<i>Source</i>	<i>N/A</i>	<i>10</i>
<i>Vote</i>	<i>N/A</i>	<i>10</i>
<i>Standard classification</i>	<i>N/A</i>	<i>10</i>

12.2. Quarterly Reporting

- 12.2.1. The Mayor shall submit to Council within 30 days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the Municipality.
- 12.2.2. The quarterly report shall be in a format specified in Schedule C of Municipal Budget and Reporting Regulations, 2008, taking into account any guidelines issued by the National Treasury.
- 12.2.3. The quarterly reports shall be consistent with the monthly budget statements for each quarter and the Municipal Manager or his/ her delegate shall submit these reports to the National Treasury and Provincial Treasury within 5 days of tabling of the reports to Council.
- 12.2.4. The Chief Financial Officer must place the tabled quarterly reports on the Municipality's website.

12.3. Mid-year Reporting

- 12.3.1. The Chief Financial Officer, in consultation with the Municipal Manager, shall assess the budgetary performance of the Municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the Municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.
- 12.3.2. The Municipal Manager shall then submit a report on such assessment to the Mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 25 January of each year.
- 12.3.3. Such report shall make recommendations as to whether an adjustments budget is necessary and recommend revising the projections of revenues and expenses set out in the Service Delivery and Budget Implementation Plan.

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- 12.3.4. The mid-year report shall be in a format specified in Schedule C of Municipal Budget and Reporting Regulations, 2008, taking into account any guidelines issued by the National Treasury.
- 12.3.5. Within 5 working days of 25 January each year, the Municipal Manager or his/ her delegate shall make mid-year budget and performance assessment report public by placing it on the Municipality's website.
- 12.3.6. The Accounting Officer shall submit to the National Treasury and Provincial Treasury in both printed and electronic form the mid-year budget and performance assessment report by 25 January each year and any other information relating to the mid-year budget and performance assessment report as may be required by the National Treasury.

13 Legal Requirements: Municipal Finance Management Act of 2003 (No 56)

- 13.1. Section 15: Appropriation of funds for expenditure
 - 13.1.1. Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each budget vote.
- 13.2. Section 16: Annual budgets
 - 13.2.1. The Council of the Municipality must approve the annual budget before the start of the financial year to which it relates. The Mayor must table the annual budget at least ninety days before the start of such financial year. The capital budget may extend over three years, provided that it is separated into annual appropriations for that period.
- 13.3. Section 17: Contents of annual budgets and supporting documents
 - 13.3.1. The budget must be in the prescribed format, and must be divided into a capital and an operating budget. The budget must reflect the realistically expected revenues by major source for the budget year concerned. The expenses reflected in the budget must be divided into votes.
 - 13.3.2. The budget must also contain the foregoing information for the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the year before the current year, and the estimated revenues and expenses for the current year.
 - 13.3.3. The budget must be accompanied by all the following documents:
 - Draft resolutions approving the budget;
 - Draft resolutions (where applicable) amending the INTEGRATED DEVELOPMENT PLAN and the budget-related policies;
 - Measurable performance objectives for each budget vote, taking into account the Municipality's INTEGRATED DEVELOPMENT PLAN ;
 - The projected cash flows for the financial year by revenue sources and expenditure votes;
 - Any proposed amendments to the INTEGRATED DEVELOPMENT PLAN ;
 - Any proposed amendments to the budget-related policies;
 - The cost to the Municipality of the salaries, allowances and other benefits of its political office bearers and other Councillors, the Municipal Manager, the Chief Financial Officer, and other Senior Managers;
 - Particulars of any proposed allocations or grants to other Municipalities, Municipal Entities, external mechanisms assisting the Municipality in service delivery, other organs of state, and organisations such as NGOs, welfare institutions and so on;

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- Particulars of the Municipality's investments;
- Executive Summary;
- Mayors' report; and
- Other documentation deemed appropriate by the Municipal Budget Reporting and Regulations.

13.4. Section 18: Funding of expenditures

13.4.1. The budget may be financed only from:

13.5. Section 19: Capital projects

13.5.1. A Municipality may spend money on a capital project only if the money for the project (including the cost of any required feasibility studies) has been appropriated in the capital budget. The total cost of the project must also be approved by the Council. The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes. Before approving a capital project, the Council must consider the projected cost of the project over all the ensuing financial years until the project becomes operational, as well as the future operational costs and any revenues which may arise in respect of such project.

13.6. Section 20: Matters to be prescribed

13.6.1. The Minister of Finance must prescribe the form of the annual budget, and may further prescribe a variety of other matters including the inflation projections which the Municipality must use in compiling its budget.

13.6.2. The Minister may also prescribe uniform norms and standards in regard to the setting of tariffs where a Municipal Entity or other external mechanisms is used to perform a municipal service; and may also take appropriate steps to ensure that a Municipality does not, in exceeding its fiscal powers, materially and unreasonably prejudice national economic policies (particularly on inflation, administered pricing and equity), economic activities across municipal boundaries, and the national mobility of goods, services, capital or labour.

13.7. Section 21: Budget preparation process

13.7.1. The Mayor of the Municipality must:

- Co-ordinate the processes for preparing the annual budget, and for reviewing the Municipality's INTEGRATED DEVELOPMENT PLAN and budget-related policies to ensure that the budget, the INTEGRATED DEVELOPMENT PLAN, and the policies are mutually consistent and credible.
- At least ten months before the start of the ensuing financial year, table in the Council the time schedule with key deadlines for the preparation, tabling and approval of the following year's annual budget, the review of the INTEGRATED DEVELOPMENT PLAN and budget-related policies, and the consultative processes required in the approval of the budget.
- When preparing the annual budget, take into account the Municipality's INTEGRATED DEVELOPMENT PLAN, the national budget, provincial budget, the National Government's fiscal and macro-economic policies, and the annual Division of Revenue Act.
- Take all reasonable steps to ensure that the Municipality revises its INTEGRATED DEVELOPMENT PLAN in line with realistic revenue and expenditure projections for future years.
- Consult local municipalities in the district.

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- Consult the National Treasury when requested, the Provincial Treasury, and such other provincial and national organs of state as may be prescribed.
- Provide, on request, any budget-related information to the National Treasury, other national and provincial organs of state, and any other Municipality affected by the budget.

13.8. Section 22: Publication of annual budgets

13.8.1. Immediately after the annual budget has been tabled, the Municipal Manager must make this budget and other budget-related documentation public, and must invite the local community to submit representations in regard to such budget.

13.8.2. The Municipal Manager must also immediately submit the tabled budget in both printed and electronic formats to the National Treasury, the Provincial Treasury, and in either format to prescribed national and provincial organs of state and other municipalities affected by the budget.

13.9. Section 23: Consultations on tabled budgets

13.9.1. After the budget has been tabled, the Council of the Municipality must consider the views of the local community, the National Treasury, the Provincial Treasury, and any provincial or national organs of state or municipalities which have made submissions on the budget.

13.9.2. After considering these views, the Council must give the Mayor the opportunity to respond to the submissions received, and – if necessary – revise the budget and table the relevant amendments for consideration by the Council.

13.9.3. The National Treasury may issue guidelines on the manner in which the Council must process the annual budget, including guidelines on the formation of a committee of the Council to consider the budget and hold public hearings. Such guidelines shall be binding only if they are adopted by the Council.

13.10. Section 24: Approval of annual budgets

13.10.1. The Council must consider approval of the budget at least thirty days before the start of the financial year to which such budget relates.

13.10.2. The budget must be approved at least thirty days before the start of such financial year, and the resolutions and performance objectives referred to in Section 17 must simultaneously be adopted.

13.11. Section 25: Failure to approve budget before start of budget year

13.11.1. This Section sets out the process which must be followed if the budget is not approved in the normal course of events. Briefly the Council must reconsider and vote on the budget, or an amended version of the budget, every seven days until a budget is approved. The Mayor must immediately inform the MEC for Local Government if the budget is not adopted by the start of the budget year, and may request a provincial intervention.

13.12. Section 26: Consequences of failure to approve budget before start of budget year

13.12.1. The Provincial Executive must intervene in any Municipality which has not approved its annual budget by the start of the relevant financial year. Such intervention must entail the taking of any appropriate steps to ensure a budget is approved, including dissolving the Council and appointing an administrator until a new Council can be elected, and approving a temporary budget until such new Council can adopt a permanent budget for the Municipality. The Section also imposes restrictions on what may be spent in terms of such temporary budget.

13.13. Section 27: Non-compliance with provisions of this chapter

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13.13.1. This Section sets out the duties of the Mayor to report any impending non-compliance and the general consequences of non-compliance with the requirements of the various foregoing prescriptions.

13.14. Section 28: Municipal adjustments budgets

13.14.1. A Municipality may revise its annual budget by means of an adjustments budget.

13.14.2. A Municipality may appropriate additional revenues which have become available but only to revise or accelerate spending programmes already budgeted for.

13.14.3. A Municipality may in such adjustments budget, and within the prescribed framework, authorise unforeseen and unavoidable expenses on the recommendation of the Mayor.

13.14.4. A Municipality may authorise the utilisation of projected savings on any vote towards spending under another vote.

13.14.5. Municipalities may also authorise the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the Council.

13.14.6. Only the Mayor of the Municipality may table an adjustments budget. Such budget may be tabled whenever necessary, but limitations on the timing and frequency of such tabling may be prescribed.

13.14.7. An adjustments budget must contain all of the following:

- an explanation of how the adjustments affect the approved annual budget;
- appropriate motivations for material adjustments; and
- an explanation of the impact of any increased spending on the current and future annual budgets.

13.14.8. However, a Municipality must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.

13.15. Section 29: Unforeseen and unavoidable expenditure

13.15.1. In regard to unforeseen and unavoidable expenses, the following apply:

- The Mayor may authorise such expenses in an emergency or other exceptional circumstances;
- The Municipality may not exceed a prescribed percentage of the approved annual budget in respect of such unforeseen and unavoidable expenses;
- These expenses must be reported by the Mayor to the next Council meeting;
- The expenses must be appropriated in an adjustments budget; and
- The adjustments budget must be passed within sixty days after the expenses were incurred.

13.16. Section 30: Unspent funds

13.16.1. The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for the expenses referred to above in Section 16.

13.17. Section 31: Shifting of funds between multi-year appropriations

13.17.1. If the funds for a capital project have been appropriated for more than one financial year (see Section 16) these expenses may exceed the appropriation for any one financial year, provided:

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- The increase is not more than 20% of that financial year's allocation;
- The increase is funded in the next financial year's appropriations;
- The Municipal Manager certifies that actual revenues are expected to exceed budgeted revenues, and that enough funds will be available to finance such increased appropriation without incurring further borrowing beyond the annual budget limit;
- The Mayor gives prior written approval for such increased appropriation; and
- All the above documentation is provided to the Auditor-General.

13.18. Section 32: Unauthorised, irregular or fruitless and wasteful expenditure

13.18.1. Unauthorised expenses may be authorised in an adjustments budget.

13.18.2. Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.

13.19. Section 33: Contracts having future budgetary implications

13.19.1. Contracts extending beyond one financial year may be entered into by a Municipality, but if such contract extends beyond the three years covered in the annual budget, the Municipality may enter into such contract only if:

- The Municipal Manager, at least sixty days before the Council meeting at which the contract is to be approved, has made the contract public, with an information statement summarising the Municipality's obligations, and inviting the local community and other interested parties to submit comments or make representations.
- The Municipal Manager solicits the views and recommendations of the National Treasury and Provincial Treasury in respect to such contract, as well as those of the National Department of Provincial and Local Government, and any national department concerned with water, sanitation or electricity, if the contract relates to any of these services.
- The Council has taken into account the projected financial obligations in regard to such contract, the impact on tariffs, and the views and comments received from all the foregoing parties.
- The Council adopts a resolution determining that the Municipality will secure a significant capital investment or derives a significant financial or economic benefit from the contract, and approves the entire contract exactly as it is to be executed. A contract for purposes of this Section shall exclude any contract relating to the incurring of long-term debt by the Municipality, employment contracts, contracts for categories of goods as may be prescribed, or contracts where the value of the contract is less than a prescribed value or a prescribed percentage of the annual budget.

13.20. Section 53: Budget processes and related matters

13.20.1. The Mayor of the Municipality must:

- Provide general political guidance over the annual budget process and the priorities that guide the preparation of each budget.
- Co-ordinate the annual revision of the INTEGRATED DEVELOPMENT PLAN, as well as the preparation of the annual budget, and determine how the INTEGRATED DEVELOPMENT PLAN is to be taken into account or is to be revised for purposes of such budget.
- Take all reasonable steps to ensure that the Council approves the annual budget before the start of the financial year to which it relates, and that the Municipality's service delivery and budget implementation plan is approved within twenty-eight days after the approval of the budget.

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- Ensure that the annual performance agreements for the Municipal Manager and the senior managers of the Municipality are linked to measurable performance objectives which are approved with the budget and the service delivery and budget implementation plan.
- Promptly report to the Council and the MEC for Local Government any delay in tabling the annual budget, approving the service delivery and budget implementation plan or signing the annual performance agreements.
- Further ensure that the service delivery targets and quarterly performance indicators, and the monthly projections of revenues and expenses in the service delivery and budget implementation plan, are made public not later than fourteen days after these matters have been approved; and that the performance agreements of the Municipal Manager and other senior officials are similarly made public not later than fourteen days after their approval.

13.21. Section 68: Budget preparation

- 13.21.1. The Municipal Manager must assist the Mayor in performing the assigned budgetary functions and must provide the Mayor with administrative support, operational resources and the information necessary to perform these functions.

13.22. Section 69: Budget implementation

- 13.22.1. The Municipal Manager is responsible for implementing the budget, and must take reasonable steps to ensure that:

- Funds are spent in accordance with the budget;
- Expenses are reduced if expected revenues are less than projected; and
- Revenues and expenses are properly monitored.

- 13.22.2. The Municipal Manager must prepare any adjustments budget when such budget is necessary and submit it to the Mayor for consideration and tabling in Council. The Municipal Manager must submit a draft service delivery and budget implementation plan to the Mayor fourteen days after the annual budget has been approved, and must also within the same period submit drafts of the annual performance agreements to the Mayor.

13.23. Section 70: Impending shortfalls, overspending and overdrafts

- 13.23.1. The Municipal Manager must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

13.24. Section 71: Monthly budget statements

- 13.24.1. The Municipal Manager must, not later than ten working days after the end of each calendar month, submit to the Mayor and Provincial Treasury a report in the prescribed format on the state of the Municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

- 13.24.2. This report must reflect the following:

- Actual revenues per source, compared with budgeted revenues;
- Actual expenses per vote, compared with budgeted expenses;
- Actual capital expenditure per vote, compared with budgeted expenses;
- Actual borrowings, compared with the borrowings envisaged to fund the capital budget;
- The amount of allocations received, compared with the budgeted amount;
- Actual expenses against allocations, but excluding expenses in respect of the equitable share;

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- Explanations of any material variances of 10% between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan;
- The remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
- Projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised. The report to the National Treasury must be both in electronic format and in a signed written document.

13.25. Section 54: Budgetary control and early identification of financial problems

13.25.1. On receipt of the report from the Municipal Manager, the Mayor must:

- Consider the report;
- Check whether the budget has been implemented in accordance with the service delivery and budget implementation plan;
- Issue appropriate instructions to the Municipal Manager to ensure that the budget is implemented in accordance with this plan, and that the spending of funds and the collection of revenues proceed in accordance with the approved budget;
- Identify any financial problems facing the Municipality, as well as any emerging or impending financial problems; and
- Submit to the Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the Municipality.

13.25.2. If the Municipality faces any serious financial problems, the Mayor must:

- Promptly respond to and initiate the remedial or corrective steps proposed by the Municipal Manager, and
- Alert the MEC for Local Government and the Council of the Municipality to the problems concerned.

13.25.3. The Mayor may revise the details of the service delivery and budget implementation plan, but any revisions to the service delivery targets and quarterly performance indicators must be approved by the Council, and be supported by an adjustments budget. Any changes made to the projections of revenues and expenses as set out in the plan must promptly be made public.

13.26. Section 55: Report to provincial executive if conditions for provincial intervention exist

13.26.1. If the Council has not approved its annual budget by the first day of the financial year to which it relates, or if the Municipality encounters serious financial problems, the Mayor must immediately report this matter to the MEC for Local Government and may recommend a provincial intervention.

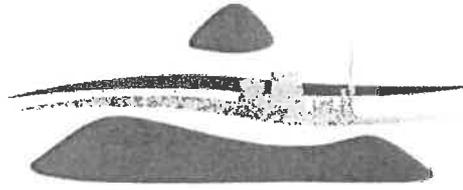
13.27. Section 72: Mid-year budget and performance assessment

13.27.1. The Municipal Manager must assess the budgetary performance of the Municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the Municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan, and the past financial year's annual report and the progress made in resolving problems identified in such report.

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- 13.27.2. The Municipal Manager must then submit a report on such assessment to the Mayor, the National Treasury and the Provincial Treasury.
- 13.27.3. The Municipal Manager may in such report make recommendations for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.
- 13.27.4. In terms of Section 54(1) (f) the Mayor must promptly submit this assessment report to the Council of the Municipality.
- 13.28. Section 73: Reports on failure to adopt or implement budget-related and other policies
- 13.28.1. The Municipal Manager must inform the Provincial Treasury, in writing, of any failure by the Council to adopt or implement any budget-related policy or a supply chain management policy, and of any non-compliance by an office bearer or political structure with such policy.
- 13.29. Section 75: Information to be placed on websites of municipalities
- 13.29.1. The Municipal Manager must place on the Municipality's official website (inter alia) the following:
- The annual and adjustments budgets and all budget-related documents;
 - All budget-related policies;
 - The annual report;
 - All performance agreements;
 - All service delivery agreements;
 - All long-term borrowing contracts;
 - All quarterly reports submitted to the Council on the implementation of the budget and the financial state of affairs of the Municipality.
- 13.30. Section 80: Establishment (of municipal budget and treasury office)
- 13.30.1. Every Municipality must have a budget and treasury office comprising a Chief Financial Officer supported by appointed officials and contracted staff.
- 13.31. Section 81: Role of chief financial officer
- 13.31.1. The Chief Financial Officer is administratively in charge of the budget and treasury office and must, inter alia:
- Assist the Municipal Manager in preparing and implementing the budget;
 - Perform such budgeting, financial reporting and financial management and review duties as are delegated by the Municipal Manager;
 - Account to the Municipal Manager for the performance of all the foregoing responsibilities.
- 13.32. Section 83: Competency levels of professional financial officials
- 13.32.1. The Municipal Manager, Senior Managers, the Chief Financial Officer and the other financial officials in a Municipality must all meet prescribed financial management competency levels.



Fezile Dabi

District Municipality

BUDGET VIREMENT POLICY

Date of approval by council:

Council Resolution number:

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Budget Virement Policy

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Definitions

Accounting Standards Board	Was established by the Public Finance Management Act to set standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.
A-Class Items	A-class items are those items that are not consumable or expendable.
Acquisition Management	Acquisition management is the process of procurement of goods or services and includes the: <ul style="list-style-type: none">• Identification of preferential policy objectives;• Determination of market strategy;• Application of depreciation rates;• Application of total cost of ownership principle;• Compilation of bid documentation, including conditions;• Determination of evaluation criteria;• Evaluation of bids and tabling of recommendations;• Compilation and signing of contract documents;• Contract administration.
Affordable	Affordable in relation to a PPP agreement, means that the financial obligations to be incurred by a Municipality in terms of the agreement can be met by: <ul style="list-style-type: none">• Funds designated in the Municipality's budget for the current year for the activity outsourced in terms of the agreement;• Funds destined for that activity in accordance with the future budgetary projections of the Municipality;• Any allocations of the Municipality;• Or a combination of such funds and allocations.
AGSA	Auditor-General of South Africa
Agreement	In relation to a <i>prohibited Practice in terms of the Competition Act 89 of 1998 as amended</i> , includes a contract, arrangement or understanding, whether or not legally enforceable
AMP	Asset Management Policy
AMSC	Asset Management Steering Committee (composed as per the Asset Management Policy)
AMU	Asset Management Unit (composed as per the Asset Management Policy)

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AO	Accounting Officer – (Municipal Manager)
Appropriation	Money set aside by Council for a specific purpose
Asset	<p>It is a resource controlled by an entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity. It has the following characteristics:</p> <p>It possesses service potential or future economic benefit that is expected to flow to the entity.</p> <p>It is controlled by the entity.</p> <p>It originates as a result of a past transaction or event.</p>
Asset Categories	<p>Are the five main asset categories defined by GRAP 17 These are:</p> <ul style="list-style-type: none">• Community assets-are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.• Heritage assets-are defined as culturally significant resources. Examples are works of art, historical buildings and statues.• Infrastructure assets-are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.• Investment properties-are defined as properties that are acquired for economic and capital gains. Examples are office parks and underdeveloped land acquired for the purpose of resale in future years.• Other assets-are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.
Asset Custodian	Is a person in any position or level in the organisation entrusted with the safeguarding and use as well as the condition monitoring of a specific asset.
Asset Management	Is a broad function and includes a structured process of decision-making, planning and control over the acquisition, use, safeguarding and disposal of assets to maximise their service delivery potential and benefits, and to minimise their related risks and costs over their entire life.
Asset Manager	Is any senior official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the Municipality's assets in accordance with the Municipality's standards, policies, procedures and relevant guidelines.

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Asset Register	Is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements.
Assets	Are resources controlled by an entity as the result of past events and from which future economic benefits or future service potential is expected to flow to the entity.
Attractive Items	Are items of property, plant or equipment that are not significant enough for financial recognition but are attractive enough to warrant special safeguarding. These assets are also referred to as inventory.
BBBEE	Broad Based Black Economic Empowerment
BBBEEA	Broad Based Black Economic Empowerment Act
BEE	Black Economic Empowerment
Buy Out	Pay someone to give up an ownership.
Capital Assets	Are all assets with a life cycle of greater than one year and above the capitalisation threshold (where applicable). For example, this would include property, plant and equipment (infrastructure network, furniture, motor vehicles, computer equipment, etc.), intangible assets, and investment property.
Capitalisation	is the recognition of expenditure as an asset in the Financial Asset Register and accounting records.
Capitalisation Threshold	is the value above which assets are treated as capital assets and entered into an asset register from which reporting in the financial statements (specifically the Statement of Financial Position) is extracted. This threshold serves as guidance only and should be set by the Accounting Officer through consultation with the Asset Management Steering Committee, and reviewed on an annual basis.
Carrying Amount	Is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses thereon.
CFO	The Chief Financial Officer of a municipality designated by Municipal Manager to be administratively in charge of the budgetary and treasury functions.
CIDB	Construction Industry Development Board
Class Of Property, Plant And Equipment	Means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements. (GRAP 17) (This definition of class applies to all capital assets.) Class of assets is also sometimes referred to as the asset hierarchy.
Competitive Bid	Means a bid in terms of a competitive bidding process.

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Competitive Bidding Process	Means a competitive bidding process.
Component	Is a part of an asset with a significantly different useful life and significant cost in relation to the rest of the main asset. Component accounting requires that each such part shall be separately accounted for and is treated separately for depreciation, recognition and de-recognition purposes. It is also referred to as separately depreciable parts.
Concerted Practice	Means co-operative, or coordinated conduct between <i>firms</i> , achieved through direct or indirect contact, that replaces their independent action, but which does not amount to an <i>agreement</i>
Cost	is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, where applicable, the amount attributed to that asset when construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other GRAP.
Cost Of Acquisition	Is all the costs incurred in bringing an item of plant, property or equipment to the required condition and location for its intended use.
Current Asset (Inventory, Debtors And Cash)	An asset that would, in the normal course of operations, be consumed or converted to cash within 12 months after the last reporting date.
Current Liabilities	Current and existing obligations which are due and payable within the subsequent twelve months including but not limited to: <ul style="list-style-type: none">• Creditors;• Bank Overdrafts; and• Short term portion of the long term liabilities.
Current Replacement Cost	Is the cost of replacing an existing asset with a modern asset of equivalent capacity.
Customer Service	It is the process of serving customers in accordance with acceptable, pre-determined standards in such a manner that it increases customer satisfaction and minimises times and costs.
Demand Management	Demand management ensures that the resources required to support the strategic objectives are delivered at the correct time, at the right price, location, quantity and quality that will satisfy the needs.
Depreciable Amount	Is the cost of an asset or other amount substituted for cost in the financial statements, less its residual value.
Depreciated Replacement Cost	Is a measure of the current value of an asset based on its current replacement cost less an allowance for deterioration of condition to date (based on the fraction of remaining useful life/expected useful life).

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Depreciation	Depreciation refers to the reduction in the value of assets generally from wear and tear. The consumption of capital is recognised as a cost of production and an allowance for this is made before net profit is arrived at.
Disposal Management	Disposal management is responsible to ensure that all unserviceable, redundant or obsolete assets are subjected to a formal process of doing away with movable assets in a cost-effective, but transparent and responsible manner. It also entails the maintenance of records and documents as prescribed.
DTI	Department of Trade and Industry
E-Class Accountable	Accounting in respect of those stores approved by the relevant Treasury as consumables.
E-Class Items	E-class items are consumable and expendable stores that cannot be repaired when it becomes unusable:
Economic Life	is either: (a) The period over which an asset is expected to yield economic benefits or service potential to one or more users, or (b) The number of production or similar units expected to be obtained from the asset by one or more users.
Economic Principle	Obtain the highest possible output for the lowest possible use of resources.
Economy Of Scale	Reductions in the average cost of a product in the long run, resulting from an expanded level of output
EME	Exempted Micro Enterprise
Enhancement/Rehabilitation	Is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential for example, remaining useful life, capacity, quality, and functionality.
Equipment	A-class accountable stores that are issued and accounted for on an inventory.
FA	Financial Accountant
Fair Value	Is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.
Final Award	In relation to bids or quotations submitted for a contract, means the final decision on which bid or quote to accept.
Financially Sustainable	in relation to the provision of a municipal service, means the provision of a municipal service in a manner aimed at ensuring that the financing of

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that service from internal and external sources, including budgeted income, grants and subsidies for the service, is sufficient to cover the costs of—

- (a) The initial capital expenditure required for the service;
- (b) Operating the service; and
- (c) Maintaining, repairing and replacing the physical assets used in the provision

Formal Written Price Quotation	Means quotations referred to in sub-section 11 of section 23 of this policy.
GRAP	Stands for "generally recognised accounting practice".
HDI	Historically Disadvantaged Individual
Historically Disadvantaged Individual	<p>Historically Disadvantaged Individual (HDI) means a South African citizen who:</p> <p>Had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983 (Act No 10 of 1983) or the Constitution of the Republic of South Africa, 1993 (Act no 200 of 1993) ("the Interim Constitution"); and/or</p> <ul style="list-style-type: none">• Is female and/or• Has a disability.• Provided that a person, who obtained South African citizenship on or after the coming into effect of the Interim Constitution, is deemed not to be an HDI.
HOD	Head/s of Department/s (Directors)
Horizontal Relationship	Means a relationship between competitors
HR	Human Resources
IDP	Integrated Development Plan
Immovable Assets	All non-produced, non-financial tangible assets, namely land, subsoil assets, water resources and some fixed tangible assets namely fixed structures (bridges, houses and roads).
In The Service Of The State	<p>Means to be a member of</p> <ul style="list-style-type: none">• Any municipal council,• Any provincial legislature; or• The National Assembly or the national Council of Provinces.• A member of the board of directors of any municipal entity.• An official of any Municipality or municipal entity.

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- An employee of any national or provincial department, national or provincial public entity or constitutional institution within the meaning of the Public Finance Management Act, 1999 (Act No 1 of 1999).
- A member of the accounting authority of any national or provincial public entity; or
- An employee of Parliament or a provincial legislature.

Infrastructure

means assets that usually display some or all of the following characteristics:

- (a) They are part of a system or network;
- (b) They are specialised in nature and do not have alternative uses;
- (c) They are immovable; and
- (d) They may be subject to constraints on disposal

Intangible Assets

Intangible assets are trademarks, licenses and/or the legally enforceable rights associated with copyright and patents.

Integrated SCM

The foundation of the integrated SCM concept is total cost analysis, which is defined, as minimising the total cost of SCM elements.

Inventories

Including stock and stores (consumable stores, maintenance materials, spare parts, WIP, education/training course materials, client services). Properties/land held for sale. Strategic stocks (fuel supplies, precious stones and metals). Seized or forfeited property.

Inventory (Movable Assets) Management

It shall be possible to determine accountability for all A-class-accountable items at all times. Records shall therefore be available to describe the full extent of the responsibility of officials for equipment belonging to the institution on personal account or sectional inventories for general usage. Inventory (distribution) ledger accounts shall therefore be maintained for all A-class items.

Investments

In relation to funds of a municipality, means; preserving those funds not immediately required for the defraying of expenses and invested at approved financial institutions a person appointed in terms of section 83 of the Municipality Structures Act, 1998 (Act 117 of 1998) as the head of municipality administration;.

IT

Information Technology

Items

An individual article or unit.

LCC

Life Cycle Costing

Lifecycle Costing

Lifecycle costing is a technique developed to identify and quantify all costs, initial and on-going, associated with a project or installation over a

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given period. Thus, it is a tool that forecasts the total cost of a purchase throughout its predetermined lifecycle.

List Of Accredited Prospective Providers	Means a list of accredited prospective providers which a Municipality or municipal entity must keep in terms of this policy.
Logistics Management	Logistics management ensure that goods and services are available at the right place, time and quantities required to execute the functions of the Municipality.
Long Term Contract	Means a contract with a duration period exceeding one year.
Measurable Objectives	Measurable objectives identify very specific things that the Municipality intends doing or delivering in order to achieve the strategic objectives and ultimately the strategic goals it has set. There must therefore be a direct causal link running from the measurable objective to one or more of the strategic objectives.
MFMA	Municipal Finance Management Act
MFO	Manager: Financial Operations
Minor Asset	Is an asset other than a capital asset, which is fully depreciated in the year of acquisition.
MM	Municipal Manager (Accounting Officer)
Modern Equivalent Asset	Is an asset that replicates the existing asset with the most cost-effective asset performing the same level of service. This includes improvements in technology that may change the nature, life and value of an asset.
Movable Assets	Movable assets are assets that can be moved (e.g. machinery, equipment, vehicles, etc). All inventories and valuables and most fixed assets belong to this category.
MSA	Municipal Systems Act
MTEF	Medium Term Expenditure Framework
Municipal Functions	Means: A municipal service. Any other activity within the legal competence of a Municipality.
Municipal Manager	is the person defined as the Accounting Officer of a Municipality
Municipal Property	In relation to a Municipality, includes any movable, immovable or intellectual property, owned by or under the control of: A Municipality; or A municipal entity under the sole or shared control of the Municipality.

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Municipal Stock	Stock certificate issued by the municipality as a proof of a long-term fixed period loan of which the capital is repayable at the end of the period. Interest is payable at predetermined intervals at a fixed rate.
Negotiable Certificate	A loan certificate that is tradable on the capital market.
Net Present Value (NPV)	The sum that results when the discounted value of the expected costs of an investment are deducted from the discounted value of the expected returns. If the NPV is positive the project in question is potentially worth undertaking.
NIPP	National Industrial Participation Programme
Obsolete	No longer produced or used, out of date, to become obsolete by replacing it with something new.
Official	Official means: An employee of a Municipality; A person seconded to a Municipality to work as a member of the staff of the Municipality; A person contracted to a Municipality to work as a member of the staff of the Municipality otherwise than as an employee.
Operation And Maintenance Plan	The objective of operation and maintenance plans is to ensure assets remain appropriate to programme requirements, are efficiently utilised, and are maintained in the necessary condition to support programme delivery at the lowest possible long-term cost.
Other Applicable Legislation	Means any other legislation applicable to municipal supply chain management, including: The Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000). The Broad-Based Black Economic Empowerment Act, 2003 (Act No 53 of 2003). The Construction Industry Development Board Act, 2000 (Act No 38 of 2000).
Over-Utilisation	Over-utilisation can have adverse effects in terms of deterioration in asset performance and condition, shortening productive life and increasing recurrent operating and maintenance costs.
PCCAA	Prevention and Combating of Corrupt Activities Act, 2004
PPP	Public Private Partnership
PPFA	Preferential Procurement Policy Framework Act (Act 5 of 2000)
Practitioner	A person who practises a profession or art.
Private Party	In terms of a PPP, excludes:

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	<p>A Municipality;</p> <p>A municipal entity; or</p> <p>An organ of state, including an institution listed in any of the schedules of the Public Finance Management Act, 1999 (Act 1 of 1999).</p>
Procedures	<p>Policies are carried out by means of more detailed guidelines called "standard methods". A series of actions conducted in a certain order or manner.</p>
Process	<p>A series of actions or steps towards achieving a particular end.</p>
Project Management	<p>Project management is the planning, directing and controlling of an organisation's resources over a short term to ensure that specific objectives are successfully met.</p>
Property, Plant And Equipment	<p>are tangible assets that:</p> <ul style="list-style-type: none">a) Are expected to be used during more than one period.b) Are held by a Municipality for use in the production of goods or supply of goods or services, for rental to others, for administrative purpose; and
Provider	<p>A provider is the private person or institution that provides supplies, services or works to the Government.</p>
Public Funds	<p>All monies received by the municipality to perform the function allocated to them.</p>
Public-Private Partnership	<p>Means a commercial transaction between a Municipality and a private party in terms of which the private party:</p> <ul style="list-style-type: none">• Performs a municipal function on behalf of a Municipality.• Acquires the use of municipal property for its own commercial purposes.• Performs both a municipal function and acquires the use of municipal property as referred to above.• Assumes substantial financial, technical and operational risks in connection with the performance of the municipal function or use of municipal property• Receives a benefit for performing a municipal function or from utilising municipal property, by way of:• Consideration to be paid by the Municipality.• Charges or fees to be collected by the private party from users or customers of a service provided to them..• A combination of the above.
Quittance	<p>The acknowledgement by the recipient of the receipt of issued stores, reflecting a signature, receipt voucher number and date of receipt.</p>

FEZILE DABI DISTRICT MUNICIPALITY

Budget Virement Policy

RDP	Reconstruction and Development Programme
Recognition	Is the process by which expenditure is included in the Financial Asset Register as an asset.
Recoverable Amount	Is the amount that the Municipality expects to recover from the future use of an asset, including its residual value on disposal.
Redundant	No longer needed or useful, superfluous (unnecessary).
Rehabilitation/Enhancement.	Is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential, for example, remaining useful life, capacity, quality, and functionality.
Remaining Useful Life	Is the time remaining (of the total estimated useful life) until an asset ceases to provide the required service level or economic usefulness.
Renewal	Is the work required to replace/ enhance/ rehabilitate an asset. Expenses on renewal works are considered capital expenditure.
Reproduction Cost	Is the cost of reproducing the asset in its present physical form (substantially the same materials and design).
Residual Value	Is the net amount that the Municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
RFI	Request for Information
RFP	Request for Proposal
RFQ	Request for Quotation
Risk Management	Risk management may be defined as the identification, measurement and economic control of risks that threaten the assets and earnings of a business or other enterprise.
Rules	Rules are statements that a specific action must or must not be taken in a given situation.
Salvage	The Act of saving any goods or property in danger of damage or destruction.
SANAS	South African National Accreditation Agency
SAPS	South African Police Services
SARS	South African Revenue Services
SBD	Standard Bidding Documents
SCM	Supply Chain Management

FEZILE DABI DISTRICT MUNICIPALITY

Budget Virement Policy

SCM Regulations	Means the Local Government: Municipal Finance Management Act, 2003: Municipal Supply Chain Management Regulations.
SCM Unit	Supply Chain Management Unit
SCMP	Supply Chain Management Policy
SCO 1/2/3	Supply Chain Officer: 1/2/3
SEA	Senior Expenditure Accountant
Security	A lien, pledge, mortgage, cession or other form of collateral intended to secure the interests of the creditor
Senior Management Team	Are the incumbent of post level 1, 2 and 3 in each directorate being the "senior manager" and everyone up to two levels below them.
Senior Manager	Is a manager referred to in section 56 of the Municipal Systems Act being someone reporting directly to the Municipal Manager.
Service Potential	Is a tangible capital asset's output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life.
SFA	Senior Financial Accountant (Asset Manager & Head of Asset Management Unit)
SITA	State Information Technology Agency
SLA	Service Level Agreement
SMME	Means a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria opposite the smallest relevant size or class. It is a small, medium and micro enterprises conducting business with the municipality, with workforce of between 20 and 199 people and an annual turnover of less than R 10 million.
Sourcing	Find out where to obtain.
SP	Service Provider
SSCO	Senior Supply Chain Officer
Stewardship	"Stewardship" is the act of taking care of and managing property, plant or equipment on behalf of another.
Stores/Stock	All movable state property/assets that are kept in stock for issue purposes.

FEZILE DABI DISTRICT MUNICIPALITY

Budget Virement Policy

Strategic Goals	Strategic goals are areas of organisational performance that are critical to the achievement of the mission. They are statements that describe the strategic direction of the organisation.
Strategic Objectives	Strategic objectives are more concrete and specific than strategic goals. They should give a clear indication of what the Municipality intends doing or producing in order to achieve the strategic goals it has set for itself. As such strategic objectives would normally describe high-level outputs or "results" of actions that the Municipality intends taking.
TCO	Total Cost of Ownership
The MFMA	Means the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003).
TOR	Terms of Reference
Transfer	Shifting of allocated funds from one department (vote), line-item (vote number) or both to the other.
Treasury Guidelines	Means the guidelines on supply chain management issued by the Minister in terms of section 168 of the Act.
Under-Utilisation	Under-utilisation will increase the unit cost of programme delivery and may prompt the purchase of new assets when they are not required.
Useful Life	is either: (a) The estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the Municipality, (b) The estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the Municipality.
Value For Money	In relation to public-private partnership agreements, means that the performance of a private party in terms of the agreement will result in a net benefit to the Municipality in terms of cost, price, quality, quantity, risk transfer or any combination of those factors.
Virement	The agreed transfer of funds from one budget heading, to which it has been allocated, to another budget heading.
Written Or Verbal Quotations	Means quotations referred to in sub-section 11 of section 23 of this policy.

FEZILE DABI DISTRICT MUNICIPALITY

Budget Virement Policy

1 Objective of the Budget Virement Policy

- Provide flexibility to management of the Fezile Dabi District Municipality in managing budgets appropriated to the municipality by the respective Treasury Departments or compliant organs of state including legally approved funding from alternative sources.
- Provide clarity on approved policies and legal guidelines to managers regarding when managers may shift funds between budget votes.

2 Legislative Requirement

Section 18(1) of Municipal Finance Management Act 2003, Act 56 of 2003 stipulates that an annual budget of a municipality may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17(2).

3 mSCOA environment

4

- mSCOA is a business reform and requires multi-dimensional budgeting and recording of transactions across the following seven segments:

- i. Project segment.** The flow chart incorporate the virement principles explained above and provide guidance on how a virement should be applied in the mSCOA environment. Virement decisions should start with the project segment, if a virement needs to be done for a project, the municipality should consider whether it is a new or existing capital, operational or default project and based on the type of project, a virement is allowed or whether and adjustments budget is required.
- ii. Function segment.** The next segment that should be considered in terms of the impact of the virement process is the function segment. If there is no change to the function segment, a virement may be done subject to the virement principles below.
- iii. Funding segment** if there is no change to the funding segment, a virement may be done subject to the virement principles below.
- iv. Regional Segment** If there are changes to the regional segment in the application of a virement, then a virement may not be done but an adjustments budget is required, because Council allocates the project and funding to a specific region. A virement may be done if it will not result in changes to the regional segment subject to the application of the virement principles below.
- v. Costing Segment** Changes to the costing segment should not affect the application of a virement.
- vi. Item Segment:** Expenditure if changes in expenditure are incurred in the capital or operational budget, the virement decision should start with the project segment. If a virement is allowed, it will be subject to the application of the virement principles below.

An example of a change taking place in the capital budget is when the nature of the project may change from "outsourced" to an "own account" project which will result in a different selection of accounts from expense accounts within the item classification for Construction Work-in-progress.

- vii. Item segment: Revenue** if changes in revenue type change either in the Capital or Operational Budget. First start with the Project and apply the change to all the segments and should the Virement be allowed refer to The Virement Principals before applying the Virement.

FEZILE DABI DISTRICT MUNICIPALITY

Budget Virement Policy

- When a municipality review its virement policy, it must consider the implications of possible mSCOA segment changes taking place because of the virement (the moving of budgetary allocations within a function or its sub-functions). If virement result in a mSCOA segment change, by adding a new project, changing the region or funding source, it is not allowed. Such a shifting of budgetary allocations may only be done through an adjustments budget and not through the application of a virement.

5 Virement Principles

The following authorised principles apply in dealing with virements of budgeted funds:

- a) Virements are not be permitted in relation to revenue;
- b) Virements from the capital budget to the operating budget are not be permitted;
- c) Virements towards personnel expenditure are not be permitted;
- d) Virements to or from the following items are not be permitted:
 - bulk purchases;
 - debt impairment,
 - interest charges;
 - depreciation,
 - revenue foregone,
 - insurance,
 - Value Added Tax (VAT),
 - Ring-fenced allocations, and
 - Statutory Funds
- e) Virements must not result in adding 'new' projects to the Capital Budget;
- f) Virements of conditional grant funds for purposes outside of that specified in the relevant conditional grant framework are not be permitted (DORA);
- g) Virements must not be made where it would result in over expenditure; and
- h) Virement amounts shall not be rolled over to subsequent years, or create expectations on the subsequent budgets.
- i) Virement from and between capital assets already approved by council is not allowed.

FEZILE DABI DISTRICT MUNICIPALITY

Budget Virement Policy

6 Management of Transfers and Virement Processes

Virements between votes shall be permitted where the proposed shifts in funding facilitate sound risk and financial management;

Permissible budget transfers and virements shall be recommended by the Senior Manager (Head / Director of Department), by completing the appropriate documentation and forward to the Chief Financial Officer or the Accounting Officer in the case of the application by the Chief Financial Officer for approval.

All the necessary documentation for virements requests must be signed for by the relevant Head / Director of the Department within which the vote is allocated.

Heads / Directors of departments are not allowed to utilise a saving in the amount appropriated under a main expenditure category (e.g. General Expenses, Repairs & Maintenance, etc.) within a vote which is under their control towards the defrayment of excess expenditure under another main expenditure category within the same vote.

The amount of a saving under an expenditure category of a vote that may be transferred to another expenditure line item shall not exceed (10%) ten percent of the amount appropriated under that expenditure category and shall be limited to R50 000.

No virements recommendations or proposals shall be considered in the first three months of the financial year, unless in an emergency situation as stipulated in this policy. Virements resulting in adjustments to the approved Service Delivery and Budget Implementation Plan (SDBIP) must first be submitted to the Budget Steering Committee for consideration and then be submitted with an adjustments budget to the Council with altered outputs and measurements, and must indicate changes to the (SDBIP), and the impact that this will have on the performance objectives as set out in the municipality's Integrated Development Plan (IDP). Where virement is likely to impact on the planned Asset Management output as set by the Asset Management Steering Committee, it must be submitted to the Asset Management Steering Committee.

In cases of emergency situations virements shall be submitted by the Accounting Officer to the Executive Mayor for authorisation and be reported by the Executive Mayor to Council at its next council meeting following the occurrence of emergency

All expenditure resulting from approved virements must still be subject to the prescribed procurement processes as contained in the municipality's approved supply chain management policy.

Transfers or adjustments falling outside the ambit of this policy must be dealt with within the budget adjustment process in terms of section 28 of the Municipal Finance Management Act (MFMA).

7 Shifting Of Funds between Multi-Year Appropriations

When funds for a capital programme are appropriated in terms of section 16(3) of MFMA for more than one financial year, expenditure for that programme during a financial year may exceed the amount of that year's appropriation for that programme, provided that :

- a) The increase does not exceed 20 per cent of that year's appropriation for the programme;
- b) The increase is funded within the following year's appropriation for that programme;
- c) The municipal manager certifies that actual revenue for the financial year is expected to exceed budgeted revenue; and sufficient funds are available for the increase without incurring further borrowing beyond the annual budget limit;
- d) Prior written approval is obtained from the mayor for the increase; and
- e) The documents referred to in paragraphs (c) and (d) are submitted to the relevant provincial treasury and the Auditor-General.

Where a capital asset has been budgeted for over multiple years in terms of MFMA, the municipality shall plan for the funding needed for every financial year of the project to ensure its financial sustainability.

FEZILE DABI DISTRICT MUNICIPALITY

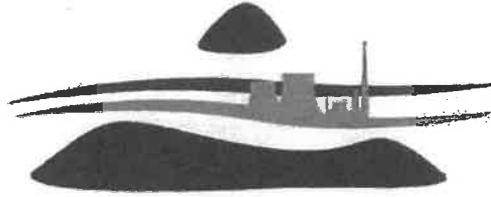
Budget Virement Policy

In cases where capital appropriations are unable to be spent during the allocated financial year, the projected roll-overs shall be included as part of the adjustment budget within the framework of section 28(2)(e) of MFMA or the Chief Financial Officer shall provide for an adjusted capital appropriation as part of the next annual budget.

Prior to shifting of funds, the Municipal Manager must obtain written approval from the mayor for the increase; and he must submit to the Provincial Treasury and the Auditor-General the certification that actual revenue will exceed budgeted revenue and that sufficient funds are available for increase without incurring further borrowing beyond the annual budget limit.

8 Reporting

The Chief Financial Officer shall report to the Accounting Officer on all the virements, and the Accounting Officer shall, within ten working days of the end of each quarter, report to the Executive Mayor on those virements that have taken place during that quarter for the financial year concerned.



Fezile Dabi

District Municipality

FUNDING AND RESERVES POLICY

Date of approval by council:

Council Resolution number:

FEZILE DABI DISTRICT MUNICIPALITY

Funding And Reserves Policy

Definitions

Accounting Standards Board	Was established by the Public Finance Management Act to set standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.
Acquisition Management	<p>Acquisition management is the process of procurement of goods or services and includes the:</p> <ul style="list-style-type: none">• Identification of preferential policy objectives;• Determination of market strategy;• Application of depreciation rates;• Application of total cost of ownership principle;• Compilation of bid documentation, including conditions;• Determination of evaluation criteria;• Evaluation of bids and tabling of recommendations;• Compilation and signing of contract documents;• Contract administration.
Affordable	<p>Affordable in relation to a PPP agreement, means that the financial obligations to be incurred by a Municipality in terms of the agreement can be met by:</p> <ul style="list-style-type: none">• Funds designated in the Municipality's budget for the current year for the activity outsourced in terms of the agreement;• Funds destined for that activity in accordance with the future budgetary projections of the Municipality;• Any allocations of the Municipality;• Or a combination of such funds and allocations.
AGSA	Auditor-General of South Africa
Agreement	In relation to a <i>prohibited Practice in terms of the Competition Act 89 of 1998 as amended</i> , includes a contract, arrangement or understanding, whether or not legally enforceable
AO	Accounting Officer – (Municipal Manager)
Appropriation	Money set aside by Council for a specific purpose
Asset	<p>It is a resource controlled by an entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity. It has the following characteristics:</p> <p>It possesses service potential or future economic benefit that is expected to flow to the entity.</p> <p>It is controlled by the entity.</p> <p>It originates as a result of a past transaction or event.</p>

FEZILE DABI DISTRICT MUNICIPALITY

Funding And Reserves Policy

sources, including budgeted income, grants and subsidies for the service, is sufficient to cover the costs of—

- (a) The initial capital expenditure required for the service;
- (b) Operating the service; and
- (c) Maintaining, repairing and replacing the physical assets used in the provision

GRAP

Stands for “generally recognised accounting practice”.

IDP

Integrated Development Plan

Investments

In relation to funds of a municipality, means; preserving those funds not immediately required for the defraying of expenses and invested at approved financial institutions a person appointed in terms of section 83 of the Municipality Structures Act, 1998 (Act 117 of 1998) as the head of municipality administration;.

MFMA

Municipal Finance Management Act

MM

Municipal Manager (Accounting Officer)

MSA

Municipal Systems Act

mSCOA

Municipal Standard Charts of Accounts

A multi-dimensional classification framework providing the method and format for recording and classifying financial transaction information in the general ledger forming part of the books of account containing a standard list of all available accounts

MTEF

Medium Term Expenditure Framework

Municipal Functions

Means:

A municipal service.

Any other activity within the legal competence of a Municipality.

Municipal Manager

is the person defined as the Accounting Officer of a Municipality

Municipal Stock

Stock certificate issued by the municipality as a proof of a long-term fixed period loan of which the capital is repayable at the end of the period. Interest is payable at predetermined intervals at a fixed rate.

Negotiable Certificate

A loan certificate that is tradable on the capital market.

Official

Official means:

An employee of a Municipality;

A person seconded to a Municipality to work as a member of the staff of the Municipality;

FEZILE DABI DISTRICT MUNICIPALITY

Funding And Reserves Policy

- Consideration to be paid by the Municipality.
- Charges or fees to be collected by the private party from users or customers of a service provided to them.
- A combination of the above.

Quittance	The acknowledgement by the recipient of the receipt of issued stores, reflecting a signature, receipt voucher number and date of receipt.
Reproduction Cost	Is the cost of reproducing the asset in its present physical form (substantially the same materials and design).
Residual Value	Is the net amount that the Municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
Risk Management	Risk management may be defined as the identification, measurement and economic control of risks that threaten the assets and earnings of a business or other enterprise.
Rules	Rules are statements that a specific action must or must not be taken in a given situation.
Salvage	The Act of saving any goods or property in danger of damage or destruction.
The MFMA	Means the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003).
TOR	Terms of Reference
Transfer	Shifting of allocated funds from one department (vote), line-item (vote number) or both to the other.

FEZILE DABI DISTRICT MUNICIPALITY

Funding And Reserves Policy

(MFMA), an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes, and
- Borrowed funds, but only for capital projects.

Furthermore, spending on a capital project may only be commenced once the funding sources have been considered, are available and have not been committed for other purposes.

The requirements of the MFMA are therefore clear in that the budget must be cash - funded i.e. cash receipts inclusive of prior cash surpluses must equal or be more than cash paid.

In determining whether the budget is actually cash funded and in addition ensuring long term financial sustainability, the municipality will use analytical processes, including those specified by National Treasury from time to time.

3.2 Standard of Care

Each functionary in the budgeting and accounting process must do so with judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise to the management of his or her own finances with the primary objective of ensuring that the objectives of this policy are achieved.

3.3 Statement of Intent

The municipality will not pass a budget which is not cash - funded or where any of the indicators as listed in this document are negative, unless acceptable reasons can be provided for non-compliance, provided that the requirements of the MFMA must at all times be adhered to.

3.4 Cash Management

Cash must be managed in terms of the municipality's Cash Management and Investment Policy.

3.5 Debt Management

Debt must be managed in terms of the municipality's Debt Management Policy, together with any requirements in this policy.

3.6 Funding the Operating Budget

3.6.1 Introduction

The municipality's objective is that the user of municipal resources must pay for such usage in the period it occurs.

3.6.2 General Principle When Compiling the Operating Budget

The following specific principles apply when compiling the budget:

- a) The budget must be cash - funded, i.e. revenue and expenditure projections must be realistic and the provision for impairment of receivables must be calculated on proven recovery rates;
- b) Growth parameters must be realistic and be based on historic patterns adjusted for current reliable information;
- c) Tariff adjustments must be fair, taking into consideration general inflation indicators as well as the geographic region's ability to pay;
- d) Revenue from Government Grants and Subsidies must be in accordance with the amounts promulgated in the Division of Revenue Act, proven provincial transfers and any possible transfers to or from other municipalities.

FEZILE DABI DISTRICT MUNICIPALITY

Funding And Reserves Policy

cash. The allocations of the funding sources from own contributions are determined during the budget process.

Grants (Including Public Contributions)

Grants for capital expenditure have become a common practice, especially in order to extend service delivery to previously disadvantaged areas. While such grants are welcomed, care should also be taken that unusual grant funding does not place an unreasonable burden on the residents for future maintenance costs which may be higher than their ability to pay.

It is therefore determined that the accounting officer must evaluate the long term effect of unusual capital grants on future tariffs, and if deemed necessary, report on such to Council.

It is furthermore determined that the depreciation charges on assets financed from grants and donations must not have a negative effect on tariffs charged to the users of such assets. The Accounting Officer must put such accounting measures in place to comply with this requirement, to a reasonable extent.

External Loans

The Accounting Officer must put such accounting measures in place to ensure that no unspent portions of loans are utilised for operating purposes.

For budgeting purposes any difference between proposed capital spending from loans and proposed loans raised must be included in the cash surplus for the year.

3.8 Funding Compliance Measurement

3.8.1 Introduction

The municipality wants to ensure that the budget or adjustments budget complies with the requirements of the MFMA and this policy. For this purpose a set of indicators must be used as part of the budget process and be submitted with the budget. These indicators include all the indicators as recommended by National Treasury as well as reconciliations according to this policy. Any additional indicators recommended by National Treasury in future must also be taken into account, as well as any additional reconciliation items as either determined by the Council or the Accounting Officer.

If any of the indicators are negative during the compilation or approval process of the budget, the budget may not be approved until all the indicators provide a positive return, unless any negative indicators can be reasonably explained and future budget projections address the turn-around of these indicators to within acceptable levels.

3.8.2 Cash and Cash Equivalents and Investments

A positive Cash and Cash Equivalents position throughout the year is crucial. In addition, the forecasted cash position at year-end must at least be the amount as calculated in the Reconciliation of Cash Requirements as determined by this policy and attached to this policy as Appendix "A".

3.8.3 Cash plus Investments less Application of Funds

The overall cash position of the municipality must be sufficient to include:

- unspent conditional grants;
- unspent conditional public contributions;
- unspent borrowings;
- vat due to SARS;
- secured investments;
- the cash portion of statutory funds such as the Housing Development Fund;
- other working capital requirements; and
- In addition, it must be sufficient to back reserves as approved by the municipality and the portions of provisions as indicated elsewhere in this policy.

FEZILE DABI DISTRICT MUNICIPALITY

Funding And Reserves Policy

3.8.12 Financial Performance Budget

Although it is not a legal requirement that the financial performance budget should balance, it only makes management sense that it should balance.

A number of line-items influence the net result of the financial performance budget. It includes capital grant revenue, depreciation charges including those where assets were funded from grants and public contributions, unamortised discounts and gains/losses on the disposal of Property Plant and Equipment. These items need to be taken into consideration in order to establish if the operating budget is realistic and credible.

3.8.13 Financial Position Budget

This indicator provides an overall view of the projected financial position over the periods of the Medium Term Expenditure framework, including movements in inventory and payables.

3.8.14 Cash Flow Budget

A positive cash flow is a good indicator of a balanced budget, as well as the ability of the municipality to meet its future commitments.

The cash flow budget, however, does not include those items such as contributions to the provisions described elsewhere in this policy, the effect of depreciation charges etc, and care must be taken not to let a projected positive cash inflow lead to additional expenditure requests, without taking the requirements of those items into consideration.

4 Reserves Policy

4.1 Introduction

Fund accounting historically formed a huge part of municipal finance in the IMFO standards.

Since the municipality changed to General Recognised Accounting Practices (GRAP), fund accounting is no more allowed.

The municipality, however, recognises the importance of providing to the municipality itself, as well as its creditors, financiers, staff, and general public a measure of protection for future losses, as well as providing the necessary cash resources for future capital replacements and other current and non-current liabilities.

This policy aims to provide for such measure of protection by creating certain reserves.

4.2 Legal Requirements

There are no specific legal requirements for the creation of reserves, except for the Housing Development Fund. The GRAP Standards itself also do not provide for reserves.

However, the GRAP "Framework for the Preparation and Presentation of Financial Statements" states in paragraph 91 that such reserves may be created, but "Fund Accounting" is not allowed and any such reserves must be a "legal" reserve, i.e. created by law or Council Resolution.

4.3 Types of Reserves

Reserves can be classified into two main categories being "cash funded reserves" and "non - cash funded reserves".

4.4 Cash Funded Reserves

In order to provide for sufficient cash resources for future expenditure, the municipality hereby approves the establishment of the following reserves:

Capital Replacement Reserve (CRR)

The CRR is to be utilised for future capital expenditure from own funds and may not be used for maintenance- or other operating expenditure.

The CRR must be cash-backed and the Accounting Officer is hereby delegated to determine the contribution to the CRR during the compilation of the annual financial statements.

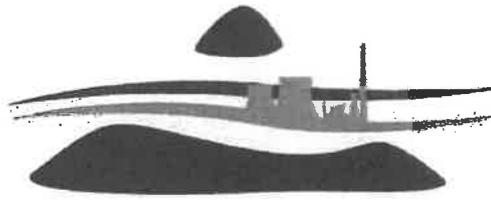
FEZILE DABI DISTRICT MUNICIPALITY

Funding And Reserves Policy

Appendix A

Reconciliation of Cash Requirements

	Cash flow from operating activities	RXX
Add	Depreciation from own funds Contribution to current provisions 20% of prior year	RXX
Add	Non - current provisions balance 5% of prior year	RXX
Add	Non - current employee benefits balance	RXX
Add	Contribution to Valuation reserve	RXX
Add	Unspent conditional grants	RXX
Add	Unspent public contributions	RXX
Add	Unspent borrowings	RXX
Add	VAT due to SARS	RXX
Add	Secured investments Cash portion of Statutory	RXX
Add	Reserves Working Capital Requirements	RXX
Add	Minimum Cash Surplus Requirements for the year	RXX



Fezile Dabi

District Municipality

FUNDING AND RESERVES POLICY

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FEZILE DABI DISTRICT MUNICIPALITY

Funding And Reserves Policy

Definitions

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Affordable	<p>Affordable in relation to a PPP agreement, means that the financial obligations to be incurred by a Municipality in terms of the agreement can be met by:</p> <ul style="list-style-type: none">• Funds designated in the Municipality's budget for the current year for the activity outsourced in terms of the agreement;• Funds destined for that activity in accordance with the future budgetary projections of the Municipality;• Any allocations of the Municipality;• Or a combination of such funds and allocations.
AGSA	Auditor-General of South Africa
Agreement	In relation to a <i>prohibited Practice in terms of the Competition Act 89 of 1998 as amended</i> , includes a contract, arrangement or understanding, whether or not legally enforceable
AO	Accounting Officer – (Municipal Manager)
Appropriation	Money set aside by Council for a specific purpose
Asset	<p>It is a resource controlled by an entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity. It has the following characteristics:</p> <p>It possesses service potential or future economic benefit that is expected to flow to the entity.</p> <p>It is controlled by the entity.</p> <p>It originates as a result of a past transaction or event.</p>

FEZILE DABI DISTRICT MUNICIPALITY

Funding And Reserves Policy

sources, including budgeted income, grants and subsidies for the service, is sufficient to cover the costs of—

- (a) The initial capital expenditure required for the service;
- (b) Operating the service; and
- (c) Maintaining, repairing and replacing the physical assets used in the provision

GRAP	Stands for "generally recognised accounting practice".
IDP	Integrated Development Plan
Investments	In relation to funds of a municipality, means; preserving those funds not immediately required for the defraying of expenses and invested at approved financial institutions a person appointed in terms of section 83 of the Municipality Structures Act, 1998 (Act 117 of 1998) as the head of municipality administration;
MFMA	Municipal Finance Management Act
MM	Municipal Manager (Accounting Officer)
MSA	Municipal Systems Act
mSCOA	Municipal Standard Charts of Accounts A multi-dimensional classification framework providing the method and format for recording and classifying financial transaction information in the general ledger forming part of the books of account containing a standard list of all available accounts
MTEF	Medium Term Expenditure Framework
Municipal Functions	Means: A municipal service. Any other activity within the legal competence of a Municipality.
Municipal Manager	is the person defined as the Accounting Officer of a Municipality
Municipal Stock	Stock certificate issued by the municipality as a proof of a long-term fixed period loan of which the capital is repayable at the end of the period. Interest is payable at predetermined intervals at a fixed rate.
Negotiable Certificate	A loan certificate that is tradable on the capital market.
Official	Official means: An employee of a Municipality; A person seconded to a Municipality to work as a member of the staff of the Municipality;

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- Consideration to be paid by the Municipality.
- Charges or fees to be collected by the private party from users or customers of a service provided to them.
- A combination of the above.

Quittance	The acknowledgement by the recipient of the receipt of issued stores, reflecting a signature, receipt voucher number and date of receipt.
Reproduction Cost	Is the cost of reproducing the asset in its present physical form (substantially the same materials and design).
Residual Value	Is the net amount that the Municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
Risk Management	Risk management may be defined as the identification, measurement and economic control of risks that threaten the assets and earnings of a business or other enterprise.
Rules	Rules are statements that a specific action must or must not be taken in a given situation.
Salvage	The Act of saving any goods or property in danger of damage or destruction.
The MFMA	Means the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003).
TOR	Terms of Reference
Transfer	Shifting of allocated funds from one department (vote), line-item (vote number) or both to the other.

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(MFMA), an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes, and
- Borrowed funds, but only for capital projects.

Furthermore, spending on a capital project may only be commenced once the funding sources have been considered, are available and have not been committed for other purposes.

The requirements of the MFMA are therefore clear in that the budget must be cash - funded i.e. cash receipts inclusive of prior cash surpluses must equal or be more than cash paid.

In determining whether the budget is actually cash funded and in addition ensuring long term financial sustainability, the municipality will use analytical processes, including those specified by National Treasury from time to time.

3.2 Standard of Care

Each functionary in the budgeting and accounting process must do so with judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise to the management of his or her own finances with the primary objective of ensuring that the objectives of this policy are achieved.

3.3 Statement of Intent

The municipality will not pass a budget which is not cash - funded or where any of the indicators as listed in this document are negative, unless acceptable reasons can be provided for non-compliance, provided that the requirements of the MFMA must at all times be adhered to.

3.4 Cash Management

Cash must be managed in terms of the municipality's Cash Management and Investment Policy.

3.5 Debt Management

Debt must be managed in terms of the municipality's Debt Management Policy, together with any requirements in this policy.

3.6 Funding the Operating Budget

3.6.1 Introduction

The municipality's objective is that the user of municipal resources must pay for such usage in the period it occurs.

3.6.2 General Principle When Compiling the Operating Budget

The following specific principles apply when compiling the budget:

- a) The budget must be cash - funded, i.e. revenue and expenditure projections must be realistic and the provision for impairment of receivables must be calculated on proven recovery rates;
- b) Growth parameters must be realistic and be based on historic patterns adjusted for current reliable information;
- c) Tariff adjustments must be fair, taking into consideration general inflation indicators as well as the geographic region's ability to pay;
- d) Revenue from Government Grants and Subsidies must be in accordance with the amounts promulgated in the Division of Revenue Act, proven provincial transfers and any possible transfers to or from other municipalities.

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cash. The allocations of the funding sources from own contributions are determined during the budget process.

Grants (Including Public Contributions)

Grants for capital expenditure have become a common practice, especially in order to extend service delivery to previously disadvantaged areas. While such grants are welcomed, care should also be taken that unusual grant funding does not place an unreasonable burden on the residents for future maintenance costs which may be higher than their ability to pay.

It is therefore determined that the accounting officer must evaluate the long term effect of unusual capital grants on future tariffs, and if deemed necessary, report on such to Council.

It is furthermore determined that the depreciation charges on assets financed from grants and donations must not have a negative effect on tariffs charged to the users of such assets. The Accounting Officer must put such accounting measures in place to comply with this requirement, to a reasonable extent.

External Loans

The Accounting Officer must put such accounting measures in place to ensure that no unspent portions of loans are utilised for operating purposes.

For budgeting purposes any difference between proposed capital spending from loans and proposed loans raised must be included in the cash surplus for the year.

3.8 Funding Compliance Measurement

3.8.1 Introduction

The municipality wants to ensure that the budget or adjustments budget complies with the requirements of the MFMA and this policy. For this purpose a set of indicators must be used as part of the budget process and be submitted with the budget. These indicators include all the indicators as recommended by National Treasury as well as reconciliations according to this policy. Any additional indicators recommended by National Treasury in future must also be taken into account, as well as any additional reconciliation items as either determined by the Council or the Accounting Officer.

If any of the indicators are negative during the compilation or approval process of the budget, the budget may not be approved until all the indicators provide a positive return; unless any negative indicators can be reasonably explained and future budget projections address the turn-around of these indicators to within acceptable levels.

3.8.2 Cash and Cash Equivalents and Investments

A positive Cash and Cash Equivalents position throughout the year is crucial. In addition, the forecasted cash position at year-end must at least be the amount as calculated in the Reconciliation of Cash Requirements as determined by this policy and attached to this policy as Appendix "A".

3.8.3 Cash plus Investments less Application of Funds

The overall cash position of the municipality must be sufficient to include:

- unspent conditional grants;
- unspent conditional public contributions;
- unspent borrowings;
- vat due to SARS;
- secured investments;
- the cash portion of statutory funds such as the Housing Development Fund;
- other working capital requirements; and
- In addition, it must be sufficient to back reserves as approved by the municipality and the portions of provisions as indicated elsewhere in this policy.

FEZILE DABI DISTRICT MUNICIPALITY

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3.8.12 Financial Performance Budget

Although it is not a legal requirement that the financial performance budget should balance, it only makes management sense that it should balance.

A number of line-items influence the net result of the financial performance budget. It includes capital grant revenue, depreciation charges including those where assets were funded from grants and public contributions, unamortised discounts and gains/losses on the disposal of Property Plant and Equipment. These items need to be taken into consideration in order to establish if the operating budget is realistic and credible.

3.8.13 Financial Position Budget

This indicator provides an overall view of the projected financial position over the periods of the Medium Term Expenditure framework, including movements in inventory and payables.

3.8.14 Cash Flow Budget

A positive cash flow is a good indicator of a balanced budget, as well as the ability of the municipality to meet its future commitments.

The cash flow budget, however, does not include those items such as contributions to the provisions described elsewhere in this policy, the effect of depreciation charges etc, and care must be taken not to let a projected positive cash inflow lead to additional expenditure requests, without taking the requirements of those items into consideration.

4 Reserves Policy

4.1 Introduction

Fund accounting historically formed a huge part of municipal finance in the IMFO standards.

Since the municipality changed to General Recognised Accounting Practices (GRAP), fund accounting is no more allowed.

The municipality, however, recognises the importance of providing to the municipality itself, as well as its creditors, financiers, staff, and general public a measure of protection for future losses, as well as providing the necessary cash resources for future capital replacements and other current and non-current liabilities.

This policy aims to provide for such measure of protection by creating certain reserves.

4.2 Legal Requirements

There are no specific legal requirements for the creation of reserves, except for the Housing Development Fund. The GRAP Standards itself also do not provide for reserves.

However, the GRAP "Framework for the Preparation and Presentation of Financial Statements" states in paragraph 91 that such reserves may be created, but "Fund Accounting" is not allowed and any such reserves must be a "legal" reserve, i.e. created by law or Council Resolution.

4.3 Types of Reserves

Reserves can be classified into two main categories being "cash funded reserves" and "non - cash funded reserves".

4.4 Cash Funded Reserves

In order to provide for sufficient cash resources for future expenditure, the municipality hereby approves the establishment of the following reserves:

Capital Replacement Reserve (CRR)

The CRR is to be utilised for future capital expenditure from own funds and may not be used for maintenance- or other operating expenditure.

The CRR must be cash-backed and the Accounting Officer is hereby delegated to determine the contribution to the CRR during the compilation of the annual financial statements.

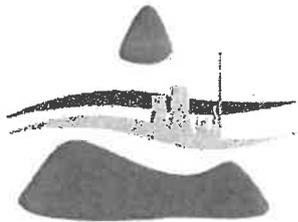
FEZILE DABI DISTRICT MUNICIPALITY

Funding And Reserves Policy

Appendix A

Reconciliation of Cash Requirements

	Cash flow from operating activities	RXX
Add	Depreciation from own funds Contribution to current provisions 20% of prior year	RXX
Add	Non - current provisions balance 5% of prior year	RXX
Add	Non - current employee benefits balance	RXX
Add	Contribution to Valuation reserve	RXX
Add	Unspent conditional grants	RXX
Add	Unspent public contributions	RXX
Add	Unspent borrowings	RXX
Add	VAT due to SARS	RXX
Add	Secured investments Cash portion of Statutory	RXX
Add	Reserves Working Capital Requirements	RXX
Add	Minimum Cash Surplus Requirements for the year	RXX



Fezile Dabi

District Municipality

Debtors / Receivables Policy

Date of approval by council:.....

Council Resolution number:.....

DEFINITIONS:

Long-term receivables / debtors: is any debtor / receivable that is scheduled or projected for receipt in a period more than 12-month period.

Payment Arrangement: An agreement to pay an overdue account in instalments over a specified period of time.

Exchange transactions: Transactions that related to provision of goods and / or services by the municipality.

Interest: Means the applicable rate to be added or capitalized to the long-term debt or principal advanced loan amount.

Liability: Means the possible outflow of funds or resources from the municipality due to past event.

Repayment: Means interval payments of instalments on debts or loans.

Receivable: Means the possible inflow of funds or resources into the municipality due to the services rendered or loan advanced.

Non-Exchange transactions: Transactions where the municipality value from another municipality without directly giving approximate value in exchange.

1. OBJECTIVES

- a) To provide for measures and principles for managing accounts receivables (debtors).
- b) To outline the accounting treatment for outstanding debt.

2. LEGISLATIVE CONTEXT

Section 96 of Municipal Systems Act requires that the municipality must collect all money that is due and payable to it, subject to this Act and any other applicable legislation and for this purpose, must adopt, maintain and implement a credit control and debt collection policy which is consistent with its tariff policies and complies with the provisions of this Act.

In terms of section 164(1)(c) of Municipal Finance Management Act, 56 of 2003 (MFMA), a municipality or a municipal municipality is prohibited from making / granting loans to three categories of borrowers:

- (i) councillors or officials of the municipality;
- (ii) directors or officials of the municipal municipality; and
- (iii) members of the public.

In terms of this policy, the Accounting Officer is required to take all reasonable steps to ensure that the municipality does not engage granting of loans as outlined by section 164(1)(c).

3. POLICY PRINCIPLES

- a) This policy is applicable to debtors through exchange and non-exchange transactions, but excludes debt / receivables emanating from the following types of transactions in a far as they are applicable to the municipality and are allowable under the provisions of MFMA:
 - Financial guarantee contracts / truncations (e.g home loan guarantees for employees);
 - Loan commitments made by the municipality;
- b) This policy must be read together with the Unauthorised, Irregular, Fruitless and Wasteful Expenditure Policy as well as Debt Impairment and Debt Write-Off Policy of the municipality.
- c) This policy should not be used to divest the municipality from its legislative responsibility to ensure that monies due are collected as and when they become due.

- d) All material adjustments in debtors' accounts shall require approval of the Chief Financial Officer.
- e) Similarly, any write-off of bad debts against long-term debtors shall require approval of the Council.

4. MEASURES TO PREVENT INCURRENCE / ESCALATION OF DEBT

- a) The municipality shall continuously review its revenue models and processes so as to identify areas that require improvement and ensure revenue sustainability.
- b) The municipality's revenue models shall therefore focus on maximizing collection of any debt, reducing inefficiency and costs, and reducing uncollectible debt.
- c) In order to achieve the above, measures shall therefore be put in place to ensure that the following critical elements of sustainability are continuously improved and implemented:
 - (i) Holding individually fully accountable to obligations that may result into debt recoverability;
 - (ii) Implementing strict controls over implementation of other policies that may incidentally give rise to debt (e.g bursary policy)
 - (iii) Prevent Unauthorized, Irregular, Fruitless and Wasteful Expenditure
- d) As part of the annual strategic and business planning process, a holistic approach shall therefore be implemented to ensure that all the above mentioned critical elements are considered and simultaneously incorporated in the strategic and annual performance plans.

5. IDENTIFICATION, RECOGNITION AND MEASUREMENT OF DIFFERENT CATEGORIES OF RECEIVABLES

- a) In the context of this policy, receivables shall include the following:
 - (i) Contractual and Statutory Receivables arising from exchange transactions; and
 - (ii) Contractual and Statutory Receivables arising from non-exchange transactions.

5.1 Receivables arising from contractual obligations (Non-Statutory Receivables)

- a) Receivables arising from contractual rights to which the municipality is a party shall initially be recognised using trade date accounting (i.e date at which the transaction was entered into) and measured at amortised costs.

- b) Receivables that do not contain a significant financing component (i.e the expected term of receivable is less than one year) shall be measured at the transaction price.
- c) This category of receivables shall be subject to impairment review annually at the end of June.

5.2 Receivables arising from legislation or supporting regulations (Statutory Receivables)

- a) The municipality shall recognise statutory receivables as follows:
 - (i) If the transaction is an exchange transaction, receivable(s) shall be measured at the fair value of the consideration receivable.
 - (ii) If the transaction is a non-exchange transaction, receivable(s) shall be measured at the transaction amount (i.e amount of increase in the net assets recognised by the municipality);
 - (iii) If the transaction cannot be recognised and measured according to (i) and (ii) above and is not within the scope of a particular relevant GRAP standard, then the receivable is recognised when the definition of an asset in terms of GRAP standards is met.
- b) Statutory receivables shall subsequently be measured at cost to reflect any:
 - (i) Interest or other charges that may have accrued on the receivable (where applicable)
 - (ii) Impairment losses; and
 - (iii) Amounts derecognised

6. INTEREST

In instances where interest is charged on receivable or group of receivables, the following principles shall apply:

- a) The same interest calculation formula shall be used for both long-term and short-term receivables. However, interest that remains unpaid shall typically be added to the principal amount and compounded monthly.
- b) Interest shall be calculated at the rates determined by Council from time to time. The Council shall also have the discretion not to charge interest on certain categories of receivables (e.g a portion of long-term debt that is under arrangement to payable by instalments).
- c) Where a receivable or group of receivables is impaired, the municipality will continue to accrue for any normal interest or other charges due to the municipality were this is in accordance with the applicable legislation, regulation or council decision or policy.
- d) Interest on statutory receivables shall be calculated using the nominal rate.

7. ARRANGEMENT TO PAY DEBT BY INSTALMENTS

- a) In cases where arrangements are entered into with the debtor to pay a debt (accumulated account) in instalments, such arrangements shall be administered in accordance with the provision of a repayment agreement that will be entered into with the Council.
- b) The repayment period may not be longer than thirty six months, unless otherwise provided for by Council.
- c) However, the principal debt together with interest, debt collection costs and commission shall become due and payable immediately in the event of any of the following:
 - (i) The insolvency of the debtor or any of them;
 - (ii) The debtor or any of them committing act of insolvency;
 - (iii) The debtor or any of them being placed under administration;
 - (iv) Any payment due in terms of the arrangement agreement not being made on due dates;
 - (v) The debtor or anyone of them not making payment of any further or future amounts that may be accrued to the municipality for the account of the debtors;
 - (vi) Termination of employment by the official concerned.
- d) Only the Council shall have the discretion to depart from any of the above conditions.

8. DERECOGNITION OF RECEIVABLES FROM THE ACCOUNTING BOOKS

- a) Derecognition of receivables (contractual and statutory) from the accounting books of the municipality may be applicable to a particular receivable of a group of receivables only when:
 - (i) The rights to the cash flows from the receivable have expired, are settled or waived;
 - (ii) The municipality transfer to another party substantially all the risk and rewards of ownership of the debt / receivable.
 - (iii) On derecognition of debt / receivable in its entirety, the difference between the carrying amount and the sum of the consideration received shall be recognised in surplus or deficit.

9. REPORTING AND DISCLOSURE OF RECEIVABLES

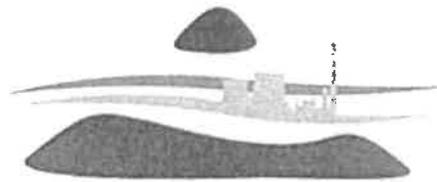
- a) Receivables shall be accounted for and disclosed as non-current assets in the financial statements of the municipality and shall include principal debt and interest where interest is applicable.

- b) Reporting and disclosures relating to receivables must comply with all the requirements of the Municipal Finance Management Act and the applicable GRAP standards, and be given in sufficient detail in the municipality's financial statements to enable the effect of the receivables on the financial statements to be understood.

10. REVIEW AND APPROVAL

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.

INFRASTRUCTURE ASSET MANAGEMENT DRAFT POLICY



Fezile Dabi
District Municipality

Date of approval by council:

Council Resolution number:

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2. DEFINITIONS

Assets	Resources controlled by the municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.
Asset Management Team	A multi-disciplinary team appointed by the Municipal Manager to initiate, monitor and review the asset management practices improvement program, the development of Infrastructure Asset Management Plans and a Consolidated Municipal Infrastructure Plan consistent with the municipality's goals and objectives.
Asset Management Policy	A formal statement adopted by Council that indicates the municipality's policy objective, the policy principles, and how these will be pursued (including the establishment of an IAM Team, and aligned systems and planning).
Asset Management Information System	A combination of processes, data and software applied to provide outputs required for effective asset management.
Asset Performance	The performance of an asset that is measured in line with the applicable Level of Service.
Asset Register	A record of information on each asset that supports effective financial and technical management of the assets, and meets statutory requirements.
Asset Utilisation	The extent to which an asset is being productively used – typically measured as a percentage of its capacity.
Borrowing costs	Interest and other expenses incurred by the municipality in connection with the borrowing of funds, for example interest on a bank overdraft.
Capital spares	Considered to be spares that constitute an entire or significant portion of a component type, or a specific component, defined in the immovable asset hierarchy, for example emergency equipment.
Carrying amount of PPE	The amount at which a Property, Plant or Equipment (PPE) asset is recognised after deducting any accumulated depreciation and accumulated impairments losses.
Carrying amount of Investment Property	The amount at which an Investment Property asset is recognised in the statement of Financial Position; which could be the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairments losses or the fair value at that point in time.
Carrying amount of heritage assets	The amount at which a Heritage asset is recognised after deducting any accumulated impairments losses.
Cash	Comprises cash on hand and demand deposits.
Cash flows	Inflows and outflows of cash and cash equivalents.
Cash equivalents	Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Cash-generating assets	Assets held with the primary objective of generating a commercial return.
Cash-generating unit	The smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflow from continuing use that are largely independent of the cash inflows from other assets or groups of assets.
Class of property, plant and equipment	A grouping of assets of a similar nature or function in the municipality's operations, which is shown as a single item for the purpose of disclosure in the financial statements.

Commencement of the lease term (municipality as the lessee)	The date from which the municipality is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.
Community Facilities	Discrete assets that provide a service directly to the community (such as parks, sports facilities, cemeteries, landfill sites etc.).
Components	The portions of an asset.
Cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
Consolidated Municipal Infrastructure Plan	A plan that provides a holistic overview of existing service performance, a vision of future performance scenarios, the risks, priorities, funding and tariff implications, as a strategic input to the Integrated Development Planning process.
Cost of disposal	Incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expenses. Examples of costs of disposal are stamp duty, legal costs, costs of removing the asset and incremental costs to bring the asset into a condition for its sale.
Control	An entity is deemed to have control of an asset if it: has the capacity to benefit from the asset; is able to deny or regulate access of others to that benefit; and has the ability to secure the future economic benefit of that asset.
Critical Assets	Assets for which the consequences of failure are sufficiently severe to justify pro-active inspection, maintenance and renewal. ("Important" Assets also justify pro-active inspection, maintenance and renewal, but not to the same level as "Critical" Assets).
Current Replacement Cost	A measure of replacement value – the cost of replacing an existing asset with a modern asset of equivalent capacity.
Demand Management	An active intervention to change the pattern of demand for a service e.g. to minimise or eliminate the need to upgrade assets, to address a limitation on bulk supply capacity, or minimise losses.
Depreciable amount	The cost of an asset, or other amount substituted for cost, less its residual value.
Depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.

Depreciated replacement cost (DRC)	<p>This is established by subtracting the residual value from the current replacement cost (CRC) and proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the estimated useful life. The DRC approach requires information on the estimated useful life (EUL), residual value (RV), current replacement cost (CRC) and remaining useful life (RUL) of each of the asset components.</p> <p>Accordingly the following formula is used:</p> $DRC = ((CRC - RV) \times RUL / EUL) + RV$ <p>Replacement costs are "green fields", unless there is evidence of definite cost variance due to "brown-field" modifications. Capital unit costs vary from site to site and provision is made for site specific influencing factors e.g. topography. Capital unit costs are also influenced by macroeconomic driving forces such as "supply and demand", financial markets and availability of contractors.</p>
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Disposal	The action required to effectively dispose, decommission, or transfer assets in terms of legal or organisational requirements.
Expenses	Decreases in economic benefits or service potential during the reporting period in the form of outflows or consumptions of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.
Exchange Transactions	Transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
Entity-specific value	The present value or service potential of the benefits the municipality expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.
Exempted capital assets	Municipal capital assets to be disposed where National Treasury approved the disposal; therefore Council approval is not necessary.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.
Heritage assets	Assets with cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.
High value	In relation to a capital asset of a municipality or municipal entity means that the fair market value of the capital asset exceeds any of the following amounts: R50 million; one per cent of the total value of the capital assets of the municipality or municipal entity, as determined from the latest available audited annual financial statements of the municipality or entity; or an amount determined by resolution of the council of the municipality or of the controlling municipality of the municipal entity which is less than R50 mil or one per cent of the total value.
Infrastructure assets	Usually have the following characteristics: they are part of a system or network; they are specialised in nature and do not have alternative uses, they are immovable; and they may be subject to constraints on disposals.
An impairment loss	Of a <u>cash-generating asset</u> is the amount by which the carrying amount of an asset exceeds its recoverable amount. Of <u>non-cash generating asset</u> is the amount by which the carrying amount of an asset exceeds its recoverable service amount.
Immovable assets	Fixed structures such as buildings and roads. A plant that is built-in to the fixed structures and is an essential part of the functional performance of the primary asset is considered an immovable asset (though it may be temporarily removed for repair).

<p>Impracticable</p>	<p>When the municipality cannot apply a requirement after making every reasonable effort to do so. For example; it is impracticable to apply a change in accounting policy for a prior period retrospectively if the effects of the retrospective application are not determinable.</p>
<p>Infrastructure Asset Management Plan</p>	<p>A plan developed for the management of Infrastructure Assets with the aim of providing specified levels of service in a cost-effective manner, now and in the future. Multi-disciplinary management techniques (including technical and financial) are combined to determine the aggregated asset life-cycle needs. A significant component of the plan is a long-term cashflow.</p>
<p>Inception of a lease</p>	<p>The earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.</p> <p>As at this date:</p> <p>a lease is classified as either a finance lease or an operating lease, and</p> <p>in the case of a finance lease, the amounts to be recognised at the commencement of the lease term as determined.</p>
<p>A lease</p>	<p>An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.</p>
<p>The lease term</p>	<p>The non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset with or without any further payments, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.</p>
<p>Level of Service</p>	<p>The defined parameters that characterise essential service delivery requirements for a particular service, against which performance may be measured. Criteria can relate to availability of the service, quality, quantity, reliability, responsiveness, environmental acceptability and cost. Measures are identified for each criteria and used for performance monitoring and reporting and as a departure point for risk management.</p>
<p>Life-cycle</p>	<p>The cycle of activities that an asset goes through – including planning and design, initial acquisition and construction, cycles of operation and maintenance and capital renewal, and finally disposal.</p>
<p>Intangible asset</p>	<p>An identifiable non-monetary asset without physical substance.</p> <p>An intangible asset is <u>identifiable</u> if it either:</p> <p>Is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licenced or exchanged, either individually or together with a related contract, identifiable asset or liability; or</p> <p>Arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.</p>

<p>Investment property</p>	<p>Property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:</p> <p>use in the production or supply of goods or services or for administrative purposes; or, sale in the ordinary course of operations.</p> <p><u>Classifications of investment property:</u></p> <p>Local government may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to produce or supply goods and services. This property will also meet the definition of investment property.</p> <p>Investment property generates cash flows largely independently of the other assets held by the municipality. This distinguishes investment property from other land and buildings controlled by the municipality, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows.</p> <p><u>Investment property includes the following:</u></p> <p>land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;</p> <p>land held for a currently undetermined future use;</p> <p>a building owned by the municipality and leased out under one or more operating leases on a commercial basis to external parties;</p> <p>a property owned by the entity and leased out at below market rental; or property that is being constructed or developed for future use as investment property.</p> <p>When the municipality provides ancillary services to the occupants of a property it holds and the services are insignificant to the arrangement as a whole, the property will still be treated as investment property.</p>
<p>Maintenance</p>	<p>The action required for an asset to achieve its estimated useful life. Maintenance can be planned or unplanned. Repairs are a form of unplanned maintenance after failure or damage.</p>
<p>Material</p>	<p>Omissions or misstatements of items are material if it could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The size or nature of the information item, or a combination of both, could be the determining factor.</p>
<p>Monetary assets</p>	<p>Money held or assets to be received in fixed or determinable amounts of money.</p>
<p>Movable assets</p>	<p>Not fixed structures and can be moved from one location to another location, for example computers and vehicles.</p>
<p>Non-monetary assets</p>	<p>Assets other than monetary assets.</p>
<p>Non-cash-generating assets</p>	<p>Assets other than cash-generating assets.</p>

Non-exchange transactions	Transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
Non-exempted capital assets	Municipal assets for which Council must approve disposals.
An obligating event	<p>An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.</p> <p>A constructive obligation is an obligation that derives from an entity's actions where:</p> <ul style="list-style-type: none"> by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities. <p>A legal obligation is an obligation that derives from: a contract (through its explicit or implicit terms); legislation; or other operation of law.</p>
Operations	The use of manpower and consumables (such as energy, chemicals and materials) required for an asset to operate to the required performance.
An operating lease	A lease other than a finance lease.
Organ of state	<p>Means – a national department or national public entity; a provincial department or provincial public entity; a municipality or municipal entity;</p> <p>any other organ of state within the meaning assigned to "organ of state" in section 239 of the Constitution.</p>
Owner-occupied property	Property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or administrative purposes.
A PPE asset hierarchy	This is adopted for Property, Plant and Equipment (PPE) which enables separate accounting for components of the asset that are considered significant to the municipality from a financial point of view, and for other reasons determined by the municipality, including risk management (in other words, taking into account the criticality of components) and alignment with the strategy adopted by the municipality in asset renewal (for example the extent of the replacement or rehabilitation at the end of life). In addition, the municipality may aggregate relatively insignificant items to be considered as one asset. The structure of the hierarchy recognises the functional relationship of assets and components.
Practices Improvement Plan	An action plan to improve the way infrastructure management is practiced in the municipality, based on an assessment of existing and target practice, and focussing on management processes, systems, data, and organisational arrangements. The initial Practices Improvement Plan may be prepared in the form of a Business Plan to be driven on a program basis.

Prior period errors	These are omissions from, and misstatements in, the municipality's financial statements for one or more prior periods arising from the failure to use, or misuse of, reliable information that: was available when financial statements for those periods were authorised for issue; and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
Property, Plant and Equipment	These are tangible items that: a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and b) are expected to be used during more than one reporting period.
A provision	This is a liability of uncertain timing or amount.
Qualifying asset	An asset that necessarily takes a substantial period of time to get ready for its intended use of sale. Examples of qualifying assets are office buildings, infrastructure such as roads, bridges and power distribution facilities and property that will become self-constructed items of property, plant and equipment once construction is complete.
Recoverable amount	The higher of a cash-generating asset's fair value less cost to sell and its value in use.
Recoverable service amount	The higher of a non-cash generating asset's fair value less cost to sell and its value in use.
Rehabilitation	The works to rebuild or replace parts of an asset to enable it to the original capacity and performance, and materially extend its useful life (which may be a full or partial extension of life – i.e. less than its estimated useful life).
Renewal	The replacement or rehabilitation of an asset.
Remaining useful life	Of an asset is the time remaining until an asset ceases to provide the required standard of performance or usefulness.
Reporting date	The date of the last day of the reporting period to which the financial statements relate.
Replacement	The complete replacement or reconstruction of an asset with one that performs to a similar standard of performance.
Residual value	The estimated amount that the municipality would currently obtain from disposal of the asset after deducting the estimated cost of disposal, if the asset was already of the age and in a condition expected at the end of its useful life.
Revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.
Risk Management	The application of a formal process that identifies the exposure of a municipality to service performance risk and determines appropriate responses.

Upgrading	The replacement, augmentation, or alteration of an asset that results in a material improvement to capacity or performance.
Useful life	This is: the period over which an asset is expected to be available for use by the municipality, or the number of production or similar units expected to be obtained from the asset by the municipality.

3. ABBREVIATIONS

CFO	Chief Financial Officer
COGTA	Department of Cooperative Governance and Traditional Affairs
FDDM	Fezile Dabi District Municipality
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	Standards of Generally Recognised Accounting Practice
IAMP	Infrastructure Asset Management Plan
IAS	International Accounting Standards
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act (Act No.56 of 2003)
OHSA	Occupational Health and Safety Act (Act No.85 of 1993)
PPE	Property, plant and equipment

4. PURPOSE OF THIS DOCUMENT

This policy for the management of immovable assets has been designed to assist management and officials of the Fezile Dabi District Municipality's (hereafter named FDDM) with the description of the management and accounting policy applicable to immovable assets such as Property, Plant and Equipment (PPE) and Land.

This policy defines what must be done and the required outputs (where applicable), which must be extended through supporting documents that show:

- How the work should be done (Procedures); and,
- The process, targets and intermediate goals involved with changing from the status quo to the desired future level of immovable asset management (Strategic Plan).

The policy commits the municipality to ensure that:

- An asset register is established and maintained to ensure compliance with the latest accounting standards, and to account for the assets in a way that is aligned with the municipality's strategic objectives and recognised good practice.
- All assets acquired are necessary for the efficient, effective and economical delivery of the intended level of service.
- Assets requiring periodic maintenance are properly maintained to ensure that the intended benefit to be derived from assets procured is realised.
- Assets no longer needed to deliver services, must be declared for subsequent transfer to areas where needed or to be disposed of in the appropriate manner.
- Individuals entrusted with FDDM's assets must properly utilize such assets to ensure that the intended benefit to be derived is realised.
- Adequate security measures to safeguard the FDDM's assets must be adhered to; to ensure that loss or theft of assets is minimized.
- Assets acquisitions, movements, transfer and disposals policies and procedures must be adhered to at all times to ensure that the assets recorded in the Assets Register and funding sources are correctly identified and recorded appropriately.
- Disciplined asset management from the individual asset user up to top management must ensure that this is achieved.

5. BACKGROUND

5.1 CONSTITUTIONAL AND LEGAL FRAMEWORK

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objects:

- providing democratic and accountable government for local communities;
- ensuring the provision of services to communities in a sustainable manner;
- promoting social and economic development;
- promoting a safe and healthy environment; and
- encouraging the involvement of communities and community organisations in matters of local government.

The manner in which a municipality manages its PPE is central to meeting the above challenges. Accordingly, the Municipal Systems Act (MSA) (Act No.32 of 2000) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) (Act No.56 of 2003) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal assets with the Municipal Manager.

The Occupational Health and Safety Act (OHSA) (Act No.85 of 1993) requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its immovable assets safe.

5.2 ACCOUNTING STANDARDS

The MFMA requires municipalities to comply with the Standards of Generally Recognised Accounting Practice (GRAP), in line with international practice.

Key changes include the recognition of depreciation of assets as an expense, and conditional grants as revenue when it is utilised. A Government Grants Reserve and a Donations and Public Contribution Reserve are established, based on the source of funding. Immoveable assets are unbundled and each significant component is individually recognised and accounted for. PPE are measured at cost, though in cases where it is impracticable to establish the cost (e.g. where there are no reliable records, or records cannot be linked to specific assets), the cost is deemed to be the fair value of the PPE

5.3 MANAGEMENT OF INFRASTRUCTURE ASSETS

Effective management of infrastructure and community facilities is central to the municipality providing an acceptable standard of services to the community. Infrastructure impacts on the quality of the living environment and opportunities to prosper. Not only is there a requirement to be effective, but the manner in which the municipality discharges its responsibilities as a public entity is also important. The municipality must

demonstrate good governance and customer care, and the processes adopted must be efficient and sustainable. Councillors and officials are custodians on behalf of the public of infrastructure and community assets.

Key themes of the latest generation of national legislation introduced relating to municipal infrastructure management include:

- long-term sustainability and risk management;
- service delivery efficiency and improvement;
- performance monitoring and accountability;
- community interaction and transparent processes;
- priority development of minimum basic services for all; and
- the provision of financial support from central government in addressing the needs of the poor.

Legislation has also entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However, the IDP cannot be compiled in isolation – for the above objectives to be achieved, the IDP needs to be informed by robust, relevant and holistic information relating to the management of the municipality's infrastructure.

There is a need to direct limited resources to address the most critical needs, to achieve a balance between maintaining and renewing existing infrastructure whilst also addressing backlogs in basic services and facing on going changes in demand. Making effective decisions on service delivery priorities requires a team effort, with inputs provided by officials from a number of departments of the municipality, including infrastructure, community services, financial planning, and corporate services.

COGTA has prepared guidelines in line with international practice, that propose that an Infrastructure Asset Management Plan (IAMP) is prepared for each sector (such as potable water, roads etc.). These plans are used as inputs into a Comprehensive Municipal Infrastructure Plan (CMIP) that presents an integrated plan for the municipality covering all infrastructures. The arrangements outlined in the COGTA guidelines are further strengthened by the provisions of the National Treasury's Local Government Capital Asset Management Guidelines. This is in line with the practice adopted in national and provincial spheres of government in terms of the Government-wide Immoveable Asset Management Act (GIAMA) (Act No.19 of 2007).

Accordingly, the asset register adopted by a municipality must meet not only financial compliance requirements, but also set a foundation for improved infrastructure asset management practice.

This document provides the framework and policy directives in terms of which FDDM accounts for immovable assets in a manner that satisfies the requirements of all relevant accounting standards. A complimentary policy focussing on the management aspects of immovable assets will be prepared to give effect to Council's strategic objectives in a manner that employs industry best asset management philosophies and methods.

6. OBJECTIVES

The objective of this policy is for the municipality to:

- Implement prevailing accounting standards.
- Provide a data platform that will support asset management practice in accordance with legal requirements and recognised good practice.
- Ensure the effective and efficient control, utilization, safeguarding and management of the FDDM's property, plant and equipment are achieved.
- Set out the standards of physical asset management, recording and internal controls to ensure property, plant and equipment are safeguarded against loss and/or inappropriate utilisation.
- Specify the outputs required for acquisition, transfer and disposal of assets.

7. APPROVAL AND EFFECTIVE DATE

The CFO is responsible for the submission of this document to Council to consider its adoption after consultation with the Municipal Manager. Council shall indicate the effective date for implementation of the policy.

8. POLICY AMENDMENTS

Changes to this document shall only be applicable if approved by Council. Any proposals in this regard shall be motivated by the CFO in consultation with the Municipal Manager and respective Directors. The recommendations of the CFO shall be considered for adoption by Council.

9. REFERENCES

The following references were observed in compiling this document:

- Asset Management Framework, National Treasury, 2004.
- Guidelines for Infrastructure Asset Management in Local Government, Department of Provincial and Local Government, 2006.
- Municipal Finance Management Act, 2003 (Act No.56 of 2003).
- Municipal Systems Act, 2000 (Act No.32 of 2000).
- MFMA Circular 18 & 44.
- Local Government Capital Asset Management Guidelines, National Treasury, 2008.
- Government Gazettes (30013 & 31021).
- Generally Recognised Accounting Practice (GRAP 1, 3, 5, 13, 16, 17, 19, 21, 26, 31, 100, 103).
- Exposure Drafts (ED 44-46).
- Municipal Transfer and Disposal Regulations, Government Gazette no.31346.

10. ASSET MANAGEMENT LIFE-CYCLE

10.1 OVERVIEW

At the municipal level, this policy defines what must be done and the required outputs (where applicable), which must be extended through supporting documents that show:

- How the work should be done (Procedures); and,
- The process, targets and intermediate goals involved with changing from the status quo to the desired future level of immovable asset management (Strategic Plan).

The FDDM shall work in accordance with the asset management lifecycle as defined by National Treasury and shown in Figure 1.

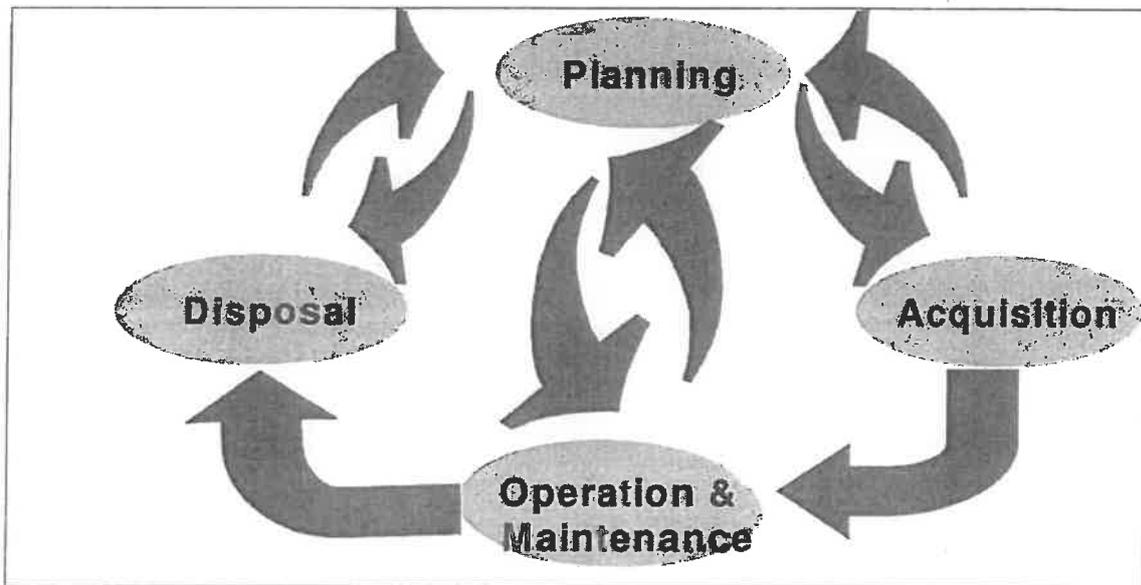


Figure 1: Asset Life Cycle

The following sections define what must be done in each of the phases in the asset life cycle, namely:

- Planning Phase.
- Acquisition Phase.
- Operation and Maintenance Phase.
- Disposal Phase.

10.2 PLANNING PHASE

i. Infrastructure and Community Services Backlog Study

An Infrastructure and Community Services Backlog Study to quantify the demand for the affordable delivery of current and future municipal infrastructure and community services and the associated impact on infrastructure creation, operations, maintenance, renewal, upgrading and disposal. For this exercise, a backlog is defined as any obligation created or to be created in the provision of infrastructure or community services, in terms of both

capital investment and maintenance expenditure. This is done for a future period of 25-years, it is monitored annually and it is updated every 5-years.

ii. Spatial Development Framework

A Spatial Development Framework showing the areas where future developments should take place in terms of land use and development densities in order to meet the expected demand for the affordable delivery of future municipal infrastructure and community services. This is done for a future period of 25-years, it is monitored annually and it is updated every 5-years.

iii. Master Plan

The Master Plans per technical service showing how the required infrastructure will be delivered in the identified development areas in order to meet the future demand for the required municipal infrastructure and community services. This is done for a future period of 25-years, it is monitored annually and it is updated every 5-years.

iv. Infrastructure Asset Management Plan

The Infrastructure Asset Management Plan (IAMP) must be prepared for each sector / area of service delivery that requires infrastructure assets. The IAMP sets out the sector's needs and priorities, the levels of service, the future demand, capital works, operation and maintenance programmes and strategies, with the associated funding plans.

The planning process for infrastructure asset management must be informed by the availability of relevant city wide information produced by the Planning Department covering aspects such as:

National, Provincial and Municipal targets and development plans.

The availability of the existing infrastructure from information in the financial asset register and/or a technical management system.

The ability of the existing infrastructure to meet existing service demands that must be assessed in terms of current service delivery backlogs.

The future needs/demands for infrastructure service delivery where information regarding the affordability and sustainability of infrastructure provision must be assessed (e.g. SocioEconomic Study) together with the future plan for municipal development (e.g. Spatial Development Framework).

An IAMP shall be produced by 31 October in each calendar year for the following sectors: • Community Facilities Services (including Community and Amenities); and

- Operational Building Services.

v. Operation and Maintenance Plan

The Operation and Maintenance Plan per technical services that covers a 5-year period and is updated annually in order to:

- Identify the assets to be operated and maintained;
- Determine the risk of theft of each and every infrastructure asset with the associated preventative action(s).

- Define the operational tactics and activities that must be executed with the associated personnel and budget requirements.
- Define the planned maintenance tactics and activities that must be executed with the associated personnel and budget requirements.
- Define the reactive (un-planned) maintenance approach and expected activities that will probably be executed with the associated personnel and budget requirements.

vi. Integrated Development Plan

Legislation has entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However the IDP needs to be informed by robust information relating to the long-term management of the municipality's infrastructure. The CMIP is the document that provides regulators and other stakeholders with confidence in the infrastructure inputs to the IDP as illustrated in Error! Reference source not found..

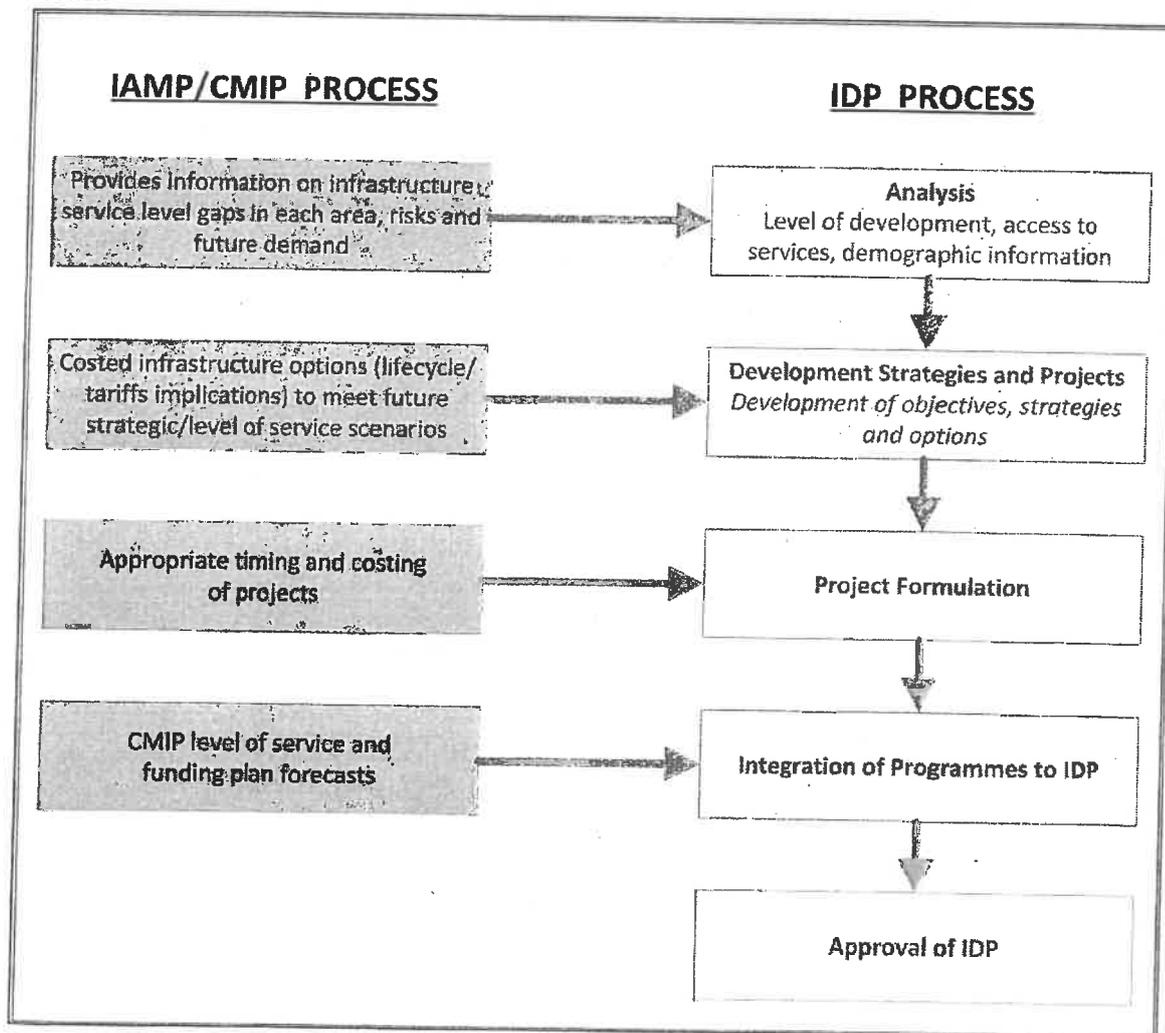


Figure 2: Infrastructure Inputs to the IDP

10.2. Budgeting

The capital and operational funds required to implement the programmes and projects defined in the O&M documentation shall be included, per financial year, in the Medium Term Revenue and Expenditure Framework (MTREF) so that:

- a) Each identified Programme is allocated a unique programme identifier, where a single person is responsible and accountable for the budget and expenditure against that programme identifier.
- b) Each identified Project belongs to a Programme and is allocated a unique project identifier that is linked to the relevant Programme, where a single person is responsible and accountable for the budget and expenditure against that project identifier.
- c) Each programme shall have at least one project since budgets and subsequent expenditure will be allocated at the project level.

¹ Figure 2; The dplg; Guidelines for Infrastructure Asset Management.

- d) No expenditure shall be allocated at the programme level and all expenditure shall only be allocated at a project level.
- e) The programme budget is the summary of the budgets for each project under that programme.
- f) The programme expenditure is the summary of the expenditure for each project under that programme.

10.3 ACQUISITION PHASE

10.3.1 Supporting Documentation

The acquisition phase is applicable to a specific project for the delivery or construction of an immovable asset. Several possible options exist for the acquisition of an immovable asset and Error! Reference source not found. describes these options together with the required supporting documentation that must be approved by the relevant Department within one (1) month of the date of issue of the practical/works completion certificate¹ (start of defects liability period). The approved documentation must be filed, with a copy sent to the Asset Management Section at FDDM: Finance. The relevant Functional Head is responsible and accountable for ensuring that the supporting documentation is delivered within the specified time frame.

At final project completion (end of defect liability period), an Addendum is added to the Project Close-out Report providing details of the final inspection, any defects that were rectified and the final completion certificate.

Table 1: Required Outputs for Various Acquisition Options for Immovable Assets within one month of practical/works completion:

#	Title	Description	Outputs
	Buy	An immovable asset is purchased such as: <ul style="list-style-type: none"> • Land. • A building. • Equipment that is installed. 	req following documents are uired as outputs: * A purchase agreement with transfer document, title deeds and location.

¹ The GRAP Standard require an asset to be recognised from the point in time when the owner has usage of that asset. This proposed policy gives a 1-month lee-way on that requirement for practical purposes, which needs to be justified to the Auditor-General otherwise it will be a finding.

			<ul style="list-style-type: none"> * A delivery note for the asset component(s), installation location and installation/commissioning certificate.
	Develop	An immovable asset is developed through a design and construction process.	<p>The following documents are required as outputs:</p> <ul style="list-style-type: none"> * Signed contract(s). * Final bill of quantities. * Payment Certificate at Works Completion. * As-built plans. * Practical/Works Completion Certificate.
#	Title	Description	Outputs
			<ul style="list-style-type: none"> * Project Close-Out Report as at Practical/Works Completion. * Componentisation List for Financial Asset Register. * Operation and Maintenance Plan.
	Transfer	An immovable asset is transferred to the FDDM from a third party, such as a developer or another tier of government.	<p>The following documents are required as outputs:</p> <ul style="list-style-type: none"> * Signed contract(s). * As-built plans. * Section 82 Certificate. * Componentisation List for Financial Asset Register. * Operation and Maintenance Plan.

All acquisition work will be done in accordance with the latest version of the Supply Chain Management Policy.

For performance and financial purposes, a project will only be classed as complete when the supporting document documentation defined in Error! Reference source not found. has been approved and submitted to:

The Functional Head: Fezile Dabi's Asset Management Office;

10.3.2 Management of Work in Progress

All capital expenditure on projects during the acquisition phase shall be allocated to the project identifier and be classed as Work in Progress (WIP) until the acquired assets can be recognised and added to the Financial Asset Register. Recognition can only take place once all the relevant supporting documents defined in Error! Reference source not found. have been delivered, which should be within one (1) calendar month of the date of issue of the practical/works completion certificate (start of defects liability period).

On a quarterly basis, the Technical Services Director: Financial Reporting shall report to the CFO showing:

- The list of programmes and projects.

- The expected completion date of each project.
- The WIP balance per financial year per project.
- This report shall be discussed at the quarterly Management Meeting where:
- Completed projects shall be identified.
- Changes to the expected project completion date shall be identified.

If deemed necessary, there shall be physical verification, by carrying out a site visit, the status of a project.

10.3 Project Management Continuity

It is essential that human resources are managed during the acquisition phase in order to achieve project management continuity. It is understood that project personnel may change but a project handover needs to take place to ensure the new person has the relevant information. This needs to be addressed by the Technical Services Director and monitored by the Fezile Dabi Project Management Office.

If project information is not available due to a change of personnel, or any other reason, the relevant Technical Services Director is still responsible and accountable for ensuring that the supporting documentation is delivered within the specified time frame.

10.4 OPERATION AND MAINTENANCE PHASE

The operation and maintenance phase is applicable to all immovable assets for the duration of their useful life. Therefore this will include reactive (un-planned) maintenance and scheduled (planned) maintenance as well as repairs, renewals and upgrades. Most of this work is classed as operational expenditure (Opex) but some of the repairs and renewals may be classified as capital expenditure (Capex) since it will extend the useful life of the asset. Upgrades will be Capex work since, by definition, this work entails an increase in the capacity and life of the asset concerned.

This phase in the life cycle commences with the formal handover of the acquired asset from the acquisition team to the operation and maintenance team, which must be accompanied by the as-built plans, component information and the operation and maintenance plan for each immovable asset. This asset information is used to extend the relevant Department's Operation and Maintenance Plan so that the personnel know how all assets must be operated and the planned maintenance that is required. This is essential input when staffing levels are determined with the associated annual operational budgets.

The Department's Operation and Maintenance Plan must also define how reactive (unplanned) maintenance will be addressed so that asset breakdowns can be dealt with in order to restore service delivery. In this regard, the Department's Operation and Maintenance Plan must define the response time to repair each type of break in service delivery that will be submitted to Council for approval by the end of June each year.

As the operation and maintenance work is implemented, each Department will gather data to enable the identification of the service reliability with operation and maintenance costs of their asset components.

The Asset Management Section at FDDM: Finance to conduct the annual GRAP Workshop in order to review:

FDDM's approved asset hierarchy in order to:

- * Identify any new asset components that are used and must be added.
- * Confirm the estimated useful life (EUL) and residual value (RV) of each asset component types that are listed in FDDM's approved asset hierarchy.

- * Update the unit tariff that is applicable for the replacement of each asset component that is listed in FDDM's approved asset hierarchy.

FDDM's Financial Asset Register (FAR) in order to:

- * Update the remaining useful life (RUL) of any asset in the register, where deemed to be necessary. This exercise will focus on all assets where the RUL is equal to or less than 2-years so that the department can identify any renewal/upgrade work required.
- * In the above task, if it is determined that an asset will not be renewed/upgraded then the asset component should be listed for derecognition from the register at the appropriate time.
- * Review the asset impairment criteria and determine if any assets should be listed as impaired during the financial year.
- * Confirm if any assets should be classified as heritage assets.
- * Confirm the assets that will be managed by each Department in the next financial year.

Confirm the usage of all properties and facilities.

Confirm the Capex projects that will and will not be completed in the current financial year.

The output from the GRAP Workshop is the GRAP Workshop Pack. By 15 June each year, the Technical Services Department will submit their draft GRAP Workshop Pack to the Asset Management Section at FDDM: Finance for review. After review, each Department will submit their final GRAP Workshop Pack by 15 July each year to the Asset Management Section at FDDM: Finance.

All materials and service providers required for the operation and maintenance work will be acquired in accordance with the latest version of the Supply Chain Management Policy.

The day-to-day operations for the operation and maintenance work programmes will be managed in line with the Department's Operation and Maintenance Plan.

10.5 DISPOSAL PHASE

All asset disposals will flow from the GRAP Workshops, where each Department will identify assets that need to be renewed/ upgraded or to be derecognised.

If an asset is to be renewed/ upgraded, then the associated planning work must define the action to be taken with the old asset, which includes:

In accordance with the Supply Chain Management Policy, obtaining written approval for the disposal of the immovable asset from the Council or from the relevant person to whom the authority has been delegated.

Either the removal of the old asset(s) or for the old asset(s) to be decommissioned and left in situ depending on cost estimates.

The transfer of any assets that are removed from site to FDDM's store with an instruction for disposal through the next auction.

Derecognition of all old asset(s), whether decommissioned or removed, in the Financial Asset Register through the completion of a Derecognition Form.

If an asset is to be derecognised, the Department will complete and submit a Derecognition Form to the Asset Management Section at FDDM: Finance that:

Instructs the Asset Management Section at FDDM: Finance to derecognise the asset in the Financial Asset Register; and,

Defines the action required on site to decommission the asset component, which may include the physical removal from site. Any assets that are removed from site will be transferred to FDDM's store with an instruction for disposal through the next auction.

11. ROLES AND RESPONSIBILITIES

11.1 ROLE OF MUNICIPAL MANAGER

As the accounting officer of the Municipality (section 63 of the MFMA), the Municipal Manager shall be the principal custodian of all the Municipality's assets, and shall be responsible for ensuring that the asset management policy is meticulously applied and adhered to.

The Municipal Manager must ensure that:

- a) The Municipality has and maintains a policy and internal control system that accounts for the assets of the Municipality;
- b) The Municipality's assets are valued in accordance with standards of Generally Recognized Accounting Practice (GRAP);
- c) That the Municipality has and maintains a system of internal control of assets including the assets register; and,
- d) Functional Heads and their staff comply with this policy.
- e) The asset management policy is reviewed annually.

11.2 ROLES AND RESPONSIBILITIES OF OFFICERS BELOW THE MUNICIPAL MANAGER

11.2.1 The Chief Financial Officer (CFO)

The CFO shall be the asset registrar of the Municipality (section 79 of the MFMA), and shall ensure that a complete, accurate and up-to-date computerised assets register is maintained. The CFO must ensure that:

- a) Appropriate systems of financial management and internal control are established and carried out diligently;
- b) The financial and other resources of the Municipality are utilized effectively, efficiently, economically and transparently;
- c) Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;

- d) The systems, processes and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of the Auditor-General;
- e) Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions;
- f) The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- g) The senior managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- h) The CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring that these activities are performed. The CFO has delegated this authority to the Finance Department.

11.2.2 Divisional Head: Financial Reporting

Since the CFO has delegated the necessary authority to the specific individuals within the finance department to ensure effective and efficient implementation of this policy, in terms of section 82 of MFMA, the individuals must exercise due financial management in terms of section 78 of the MFMA.

The Finance Department shall keep an Assets Register in which all property, plant and equipment, heritage assets, intangible assets, investment property and other material assets owned or leased by the Municipality, together with their appropriate carrying amounts.

The Finance Department shall co-ordinate the submission of all integrated Portfolio items for the CFO to report in accordance with Municipal requirements.

11.2.3 Asset Management Section (AMS)

The Head: Financial Reporting discharges his/her responsibility through Asset Management Section (AMS). This section consists of officials that operate at corporate level and some deployed at the Regional level. The AMS officials are a specialized team responsible for the centralized overall asset accounting management. The officials in this Asset Management Section are not accountable for physical assets that are dedicated to a specific Functional Head.

Some critical duties of AMS include the following tasks:

- a) Perform asset accounting in the Assets Register and programme tests for asset verification to ensure that assets in the Assets Register and physical assets present a true reflection of FDDM assets.
- b) To ensure that the asset information presented to any relevant Committee(s) is a correct representation of information in the Assets Register, to enable decisions taken on such asset items to be effected timeously.
- c) Render comments in relation to Departmental assets items.
- d) Provide continuous support to Asset Controllers and Immovable Asset Controllers.

11.2.4 Technical Services Director

The Technical Services director is responsible and accountable for the custody, safeguarding, administration and maintenance of physical assets in accordance with the following criteria:

a) In general, the Municipal Manager shall be responsible and accountable for the custody, safeguarding, administration and maintenance of:

- All immovable assets in the District Municipality, unless delegated in writing to the relevant Manager but the Municipal Manager shall remain accountable for ensuring that these delegated activities are performed.

b) The Technical Services Director shall be responsible and accountable for the custody, safeguarding, administration and maintenance of all physical assets in the areas delegated to them.

The Technical Services Director must ensure that:

- The appropriate physical asset management and control (including asset internal control processes) are established and carried out for assets in their area of responsibility.
- The municipal asset resources assigned to them are utilized effectively, efficiently, economically and transparently.
- Any unauthorized, irregular, fruitless or wasteful utilization, and losses resulting from criminal or negligent conduct, are prevented.
- Their asset management controls can provide an accurate, reliable and up to date account of assets under their control.
- They are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the Municipality's strategic objectives.
- They, or their nominated officials, perform physical verification, stocktaking of all assets biannually and submit the accountability report to the Finance Department, as at the 30th November and 31st May respectively. This must reach the CFO's office not later than 30 days after the due date; i.e. the report as at the 30th November must reach the CFO's office on or before the 30th December; and the report as at 31st May must reach the CFO's office on or before the 30th June. This has to be complied with, in order to adhere to the MFMA, section 126.
- They, or their nominated officials, complete and submit to FDDM's Finance Department their Department's annual GRAP Workshop Pack for immovable assets in accordance with the following dates:
 - Draft GRAP Workshop Pack by 15 June each year; and,
 - Final GRAP Workshop Pack by 15 July each year.
- They use the GRAP Workshop Pack as the source information to notify the CFO by 30 July each year of any change to the status or value of any asset under the Functional Head's control. This notification will show assets that are missing, including assets that have been demolished, destroyed or damaged or any other event materially affecting assets values. This Status Report for Immovable Assets is to be compiled with the assistance of the following business units:
 - Asset Management Section (AMS) for assistance with the accurate asset information contained in the assets register;

- ii) Loss Control, for assistance with the preparation of an FDDM loss report, that must include the South African Police Services (SAPS) case number and loss report that has to be obtained by the Functional Head's personnel;
- iii) Internal Audit, for verification of the extent of diminished/appreciated asset values (financial values) used in the report; iv) Public Safety, for assistance to determine if adequate security was in place at the building where the loss occurred.

11.2.5 Asset Management Steering Committee and Associated Teams

There is a major emphasis on the provision of new infrastructure to extend service delivery to those members of our community that are disadvantaged. At the same time, Parliament, National Treasury and CoGTA have all stressed that the existing infrastructure assets must be maintained so that they can continue to provide the existing services. The purpose of FDDM's Asset Management Steering Committee is to manage the asset life cycle in order to ensure that the existing infrastructure assets continue to provide a service whilst new infrastructure is created.

The objectives of the Asset Management Steering Committee is to:

- Specify the required Outcomes for asset management projects;
- Set the asset management timetable (schedule);
- Approve all asset management progress reports;
- Identify and manage the implementation of the required organisational changes required to improve asset management; and,
- Ensure that asset management practices are being implemented across the Municipality.

The Asset Management Steering Committee should be convened at quarterly (three-monthly) intervals by the CFO to initially check the status of FDDM's asset management and thereafter to monitor the implementation of the life cycle phases as well as any changes that have been defined for execution. There should be four (4) members covering the following life cycle phases with a supporting secretariat:

- Planning, provided by the Planning Department, covering the planning phase of the asset management life cycle.
- Acquisition, provided by Fezile Dabi Project Management Office, covering the acquisition phase of the asset management life cycle.
- Operations and maintenance, provided by the Technical services Manager, covering the operations, maintenance and disposal phases of the asset management life cycle.
- Corporate support, provided by Corporate Services, to ensure that the necessary financial, supply chain, human resources and information systems are in place for the management of the asset life cycle.

Each member of the Asset Management Steering Committee shall have a Project Team to support him/her that will be responsible for coordinating the work in that life cycle phase as well as implementing any changes that are required. The Project Team shall meet on a quarterly basis to review progress with secretarial support. Each Project Team must address the following objectives for their life cycle phase(s):

- Involve multiple-disciplines;

- Coordinate asset management activities;
- Prepare financial forecasts;
- Monitor the delivery of asset management documentation in terms of the time schedule and quality; and,
- Define and implement management systems to assist with asset management delivery, which cover the process/procedure, information systems, databases, hardware and the availability of personnel with the required skill sets.

11.2.3 Internal Audit

Functional Heads must liaise with the Internal Audit Department regarding verification of the list of assets to be written off and/or alienated. The resultant audit comments must be included in reports on asset items for distribution in accordance with municipal requirements.. The Internal Audit Department will then ensure that the damage to assets through negligence is reported to the respective departments and Loss Control Committee.

12. ACCOUNTING POLICY FOR PPE, ASSOCIATED INTANGIBLE ASSETS, HERITAGE ASSETS AND INVESTMENT PROPERTY

12.1 RECOGNITION

Policy statement

FDDM shall recognise all PPE, existing at the time of the adoption of the policy and any upgrades, new assets and renewals if the assets comply with the recognition criteria. Such assets shall be capitalised in compliance with prevailing accounting standards.

Recognition criteria according to the Accounting standards

The cost of an item of PPE, shall be recognised as an asset if, and only if:

- it is probable that economic benefits or service potential associated with the item will flow to the municipality,
- and
- the cost or fair value of the item can be measured reliably.

12.2 CLASSIFICATION

Policy statement

The asset sub-categories and groups below shall be used as the classification structure for the immovable assets and associated intangible assets. The assets shall be disclosed in the financial statements at the category level. Asset hierarchies shall be adopted for each of the immovable asset groups and associated intangible assets, separately identifying items of PPE at component level that are significant from a financial or risk perspective, and, where applicable, grouping items that are relatively insignificant. FDDM’s approved asset hierarchy is shown in Error! Reference source not found..

Approved Asset Hierarchy						
Level 1	Level 2	Level 3	Level 4	Level 5	Level 6	Level 7
Accounting Group						

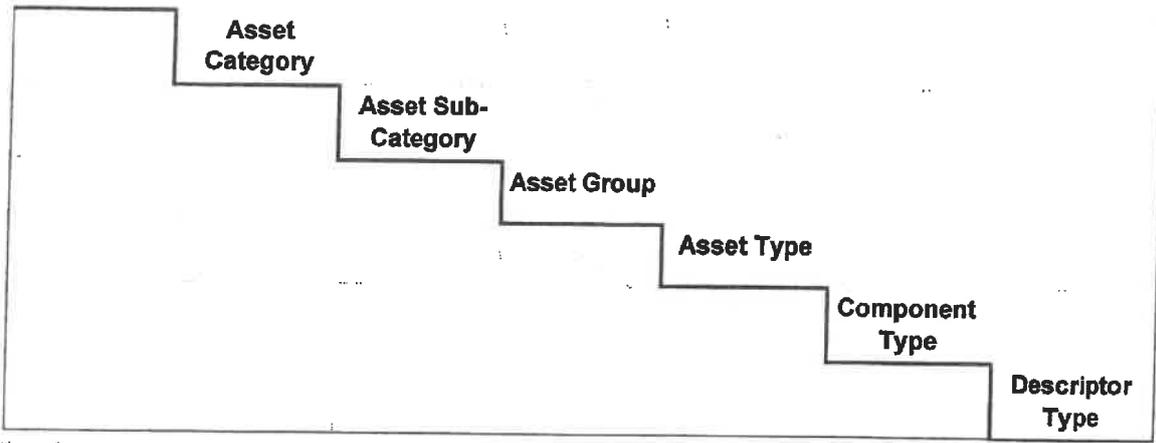


Figure 3: FDDM's Asset Hierarchy

The values to be used for each level in the asset hierarchy are listed in Annexures to this policy, where:

- a) Annexure A provides the list of currently approved values for Levels 1 to 6 in the Approved Asset Hierarchy.
- b) Each Component Type in the Approved Asset Hierarchy has one or more Descriptor Types and the approved values are listed in Annexure B together with the approved values for the following attributes for each Descriptor Type.
 - Descriptor Size.
 - Material: Size Measure.
 - Descriptor Class.
 - Descriptor: General.
 - Unit tariff for replacement of descriptor type.
 - Unit of measurement of tariff for replacement of descriptor type.
 - Year when tariff for replacement of descriptor type was defined.
 - Estimated useful life (EUL).
 - Residual value (%).

The values in Annexures A and B are to be reviewed annually by the Asset Management Section (AMS) and any required changes shall be submitted to the Asset Management Steering Committee for approval.

12.3 MEASUREMENT AT RECOGNITION

Policy statement

An item of PPE which qualify for recognition as an asset shall be measured at its cost. In cases where complete cost data is not available or reliable for use, the fair value of PPE, shall be used to recognise the asset.

Measurement at recognition according to the Accounting standards Circumstances where fair value will be used at initial measurement:

Where an item of PPE is acquired at no cost or a nominal cost, its cost is the fair value as at the date of acquisition. Events that might lead to this accounting treatment are when an asset is contributed or gifted to the municipality, a power of sequestration was exercised, there are no records on the asset's cost price, or the records cannot be linked to specific assets.

According to Directive 7, if the fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using:

- depreciated replacement cost at the measurement date for an item of property, plant and equipment;
- depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialised nature that there is no market-based evidence of fair value; and
- replacement cost at the measurement date for heritage assets.

Directive 7 can only be used to determine the cost of an asset that was acquired prior to the measurement date, 30 June 2009. For assets which cost data is not available and acquired after the measurement date, the use of deemed cost will result in a change of policy from the cost model to the revaluation model.

The measurement at recognition of an item of PPE, acquired at no or nominal cost, at its fair value does not constitute a revaluation. Elements of cost

The cost price of PPE, comprises of:

- the purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- Examples of directly attributable costs are:
 - cost of employee benefits arising directly from the construction or acquisition of the item of PPE and associated intangibles;
 - cost for site preparation (in the case of PPE assets);
 - initial delivery and handling costs (In the case of PPE infrastructure, PPE community assets and PPE);
 - installation and assembly costs,
 - cost of testing whether the PPE or associated intangible asset is functioning properly, after deducting the net proceeds from selling any item produced while bringing the asset to that location and condition;
 - professional fees (in the case of all asset classes); and
 - property transfer taxes (in the case of PPE).
 - the initial estimate of cost dismantling and removing a PPE infrastructure asset and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

- Changes in the estimated decommissioning costs:
 - Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.
- The following events can change the measurement of the provision:
 - a change in the estimated outflow of resources embodying economic benefits or service potential required to settle the obligation;
 - a change in the current market-based discount rate (this includes changes in time value of money and the risks specific to the liability); and
 - an increase that reflects the passage of time.
- Changes to provisions shall be applied as follows:
 - changes in the provision shall be added to or deducted from the asset's cost;
 - the amount deducted from the asset's cost price shall not exceed the carrying amount of the asset, the excess shall be recognised in the surplus or deficit; and
 - if the adjustment results in an addition to the cost price of the asset, the municipality shall consider whether this is an indication if the new carrying amount of the asset may not be fully recoverable. This may be an indication of an impairment.

Elements of costs that are not part of the cost price are:

- Cost of opening a new facility in the case of PPE infrastructure and PPE, community assets;
- costs of introducing a new product or service, including advertising costs, in the case PPE infrastructure;
- costs of conducting business in a new location or with a new class of customers, including training costs, in the case of PPE infrastructure, PPE community assets;
- administration and other general overhead costs in the case of PPE infrastructure, PPE community assets;
- cost incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity, in the case of PPE infrastructures;

- operating losses incurred before the investment property achieved the planned level of occupancy;
- initial operating losses, such as those incurred while demand for the item's outputs build up in the case of PPE infrastructure;
- costs of relocating or reorganising part or all of the municipality's operations, in the case of PPE infrastructure;

Assets which assist other PPE to operate effectively

Costs may be required for safety or environmental reasons. Such costs, although not directly increasing the future economic benefits or service potential of any particular existing item of PPE, may be necessary for that PPE to obtain future economic benefits or service potential. Such costs qualify for recognition as PPE because they enable PPE to derive future economic benefits and/or service potential in excess of what could be derived had those costs not been acquired. For example, a certain PPE might only operate within six months' time if a specific licence/ permit is obtained.

Replacement of components

Components of some items of PPE may require replacement at regular intervals, for example a pump. Items of PPE may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. The municipality recognises in the carrying value of an item of PPE the cost of the replacing part of such an item when that cost is incurred and if the recognition criteria are met. The carrying values of those parts that are replaced are derecognised in accordance with the Standard on Plant, Property and Equipment, GRAP 17 (REVISED), which are discussed later in this document.

Major inspections

A condition of continuing to operate an item of PPE may be performing regular major inspections for faults regardless of whether parts of the item are replaced, for example damsafety inspections which happens every five years. When major inspections are performed, the inspection cost is recognised in the carrying amount of the item of PPE as a replacement if the recognition criteria are satisfied.

Any remaining carrying value of the cost of the previous inspection is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Self-constructed assets

The cost of a self-constructed PPE community asset, PPE infrastructure asset, is determined using the same principles as for an acquired asset. If the municipality makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale. Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of waste material, labour or other resources incurred in self-constructing an asset is not included in the cost of an asset.

Internally generated goodwill

Internally generated goodwill must not be recognised as an asset.

12.4 EXCHANGE OF PHYSICAL ASSETS

Policy statement

If FDDM is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident. Exchange of physical asset criteria according to the Accounting standards

One or more assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

The cost of such an item of property, plant and equipment or investment property is measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor

the asset given up is reliably measured. If the acquired item is not measured at fair value, its cost is measured at the carrying value of the asset given up. An exchange transaction has commercial substance if:

the risks, timing and amount of the cash flows or service potential are expected to change as a result of the transaction, or

the entity-specific value of the portion of the municipality's operations affected by the transaction changes as result of the exchange, and

the difference in the two statements above is significant relative to the fair value of the assets exchanged.

12.5 BORROWING COSTS

Policy statement

FDDM shall expense all borrowing costs in the period in which they are incurred. Borrowing cost criteria according to the Accounting standard Borrowing costs may include:

Interest expenses calculated using the effective interest method as described in the Standard of GRAP on

Financial Instruments; finance charges in respect of finance leases; and

exchange differences arising from foreign currency borrowings to the extent that it's regarded as adjustments to interest costs.

Recognition of borrowing costs Benchmark treatment – Borrowing cost is expensed

A municipality shall recognise all borrowing costs as an expense in the period in which they are incurred.

Allowed alternative treatment - When borrowing costs is capitalised

An entity shall recognise borrowing costs as an expense in the period in which they are incurred, except to the extent that they are capitalised.

An entity shall recognise borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation shall be determined in accordance with this Standard.

Under the allowed alternative treatment, borrowing costs that are directly attributable to the acquisition, construction, or production of an asset are included in the cost of that asset. Such borrowing costs are capitalised as part of the cost of the asset when (a) it is probable that they will result in future economic benefits or service potential to the entity, and (b) the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowing costs eligible for capitalisation

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that will have been avoided if the expenditures on the qualifying asset had not been made.

To the extent that the municipality borrows funds specifically for the purpose of obtaining a qualifying asset, the municipality shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that the municipality borrows funds generally and uses it for the purpose of obtaining a qualifying asset, the municipality shall determine the amount of borrowing cost eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the municipality that are outstanding during the period, other

than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the municipality capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

Carrying value exceeds recoverable amount or recoverable service amount

When the carrying value or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written-off in accordance with the requirements on Impairments. Refer to the section on impairments. Commencement of capitalisation

The municipality shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the municipality first meets all of the following conditions:

it incurs expenditures for the asset. It includes technical and administrative work prior to the commencement of physical construction, such as the activities of obtaining permits; it incurs borrowing costs; and

Suspension of capitalisation

The municipality shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset. However, the municipality does not normally suspend capitalising borrowing costs during a period when it carries out substantial technical and administrative work. The municipality also does not suspend capitalising borrowing costs when a temporary delay is a necessary part of the process of getting the asset ready for its intended use, such as when high water levels delay the construction of a bridge. Cessation of capitalisation

The municipality shall cease capitalising borrowing cost when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality shall cease capitalising borrowing costs associated with a part of the asset when substantially all the activities necessary to prepare that part for its intended use or sale is completed.

An office development comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being used while construction continues on other parts. An example of a qualifying asset that need to be completed before any part can be used includes the pump and motor set within a water pump station, without which the pump station cannot fulfil its key function.

12.6 RESIDUAL VALUE

Policy statement

The residual values applicable to PPE, shall be reviewed at each reporting date.

Most assets have no residual values. Assets with residual values are indicated in **Annexure A. Residual value criteria according to the Accounting standards**

The residual value of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change shall be accounted for as a change in an accounting estimate in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3. The change will occur prospectively which means that the change will have an effect in the current and future periods.

The residual value of a PPE asset, investment property or intangible assets may increase to an amount equal or greater than the asset's carrying value. If it does, the asset's depreciation charges will be zero unless and until its residual value subsequently decreases to an amount below the asset's carrying value.

The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless: there is a commitment by a third party to purchase the asset at the end of its useful life; or

there is an active market for the asset and:

- residual value can be determined by reference to that market; and
- it is probable that such a market will exist at the end of the asset's useful life.

The residual values of assets are shown in the form of percentages in Annexure A. In the case of assets measured after recognition on the cost model, the residual value is calculated by multiplying the residual value percentage with the initial cost of acquisition. In the case of assets measured after recognition on the revaluation model, the residual value is calculated by multiplying the residual value percentage with the modern equivalent replacement value.

12.7 USEFUL LIVES OF ASSETS

Policy statement

The estimated useful lives and remaining useful lives of all assets shall be reviewed at each reporting date, taking into account any changes in asset lifecycle strategies as described in the Municipality's asset management plans, the availability of funding to implement lifecycle strategies, changes in operating conditions and other relevant factors such as the availability of comparative asset data.

The estimated useful lives of assets are indicated in Annexure A.

Criteria according to the Accounting standards

The useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change shall be accounted for as a change in accounting estimate in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3. The change will occur prospectively which means that the change will have an effect in the current and future periods.

Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and landfill sites, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of a building. The municipality shall assess whether the useful life or service potential of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, will be the elements used to estimate the useful life. An intangible asset shall be regarded by the municipality as having an indefinite life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential for the municipality.

The useful life of an intangible asset that arises from contractual rights or other legal rights shall not exceed the period of the contractual or other legal right, but may be shorter depending on the period over which the municipality expects to use the asset. If the contractual rights or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period only if there is evidence to support renewal by the municipality without significant cost.

The useful life of an intangible asset that is not amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If it does not, the change in the useful life from indefinite to finite shall be accounted for as a change in accounting estimate in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3.

The remaining useful life of all depreciable immovable assets at initial recognition is the same as the estimated useful life indicated in Annexure A. These figures have been established using available information on industry norms, experience of local influencing factors (such as climate and operational conditions), life-cycle strategies of the municipality, potential technical obsolescence and any legal limits on the use of the immovable asset.

12.8 DEPRECIATION

Policy statement

All PPE shall be depreciated over their remaining useful lives. Land is not depreciated because it is deemed to have an infinite life.

Depreciation and amortisation shall begin when the asset is available for use and in the condition and location intended by management for its use. Depreciation and amortisation shall cease at the earlier of the date that the asset is classified as held for sale, derecognised or has come to the end of its estimated useful life.

All depreciation and amortisation charges shall be recognised in surplus or deficit.

Depreciation criteria according the Accounting standards

Depreciation of components

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The municipality allocates the amount initially recognised in respect of an item of PPE to its significant parts and depreciates separately each such part. A significant part of an item of PPE may have a useful life and a depreciation method that are the same as the useful life and the depreciation method as other significant parts of that same item. Such parts may be grouped together in determining the depreciation charge. If some parts of an item of PPE are depreciated separately, it also depreciates separately the remainder of the item. The remainder consists of all the parts of the item that are individually not significant. If the municipality has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern or useful lives of the parts. Investment property will be treated in the same way because it is treated according to GRAP 17 (REVISED).

Depreciation on capital spares

The production unit cost depreciation method is used for capital spares. This means that the depreciation charge will be zero while the capital spares remain in the stores and once capital spares are implemented at a location the depreciation method change from production method unit to the straight-line unit. The change in estimate will affect the current and future periods because of the prospective treatment performed.

Where to account for depreciation and amortisation?

Depreciation and amortisation charges for each period shall be recognised in the surplus or deficit unless it is included in the carrying value of another asset.

When does depreciation and amortisation begin?

Depreciation and amortisation of an asset begins when it is available for use, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation will be calculated on a monthly basis except for the month in which the asset was purchased or an asset was completed and ready for use, then depreciation will start from the day the asset is available for use; therefore depreciation charged at a pro-rate basis.

When does depreciation or amortisation cease?

Depreciation and amortisation of an asset will cease at the earlier date that the asset is classified as held for sale in accordance with the Standard on Non-current Assets held for sale and discontinued operations, GRAP 100, and the date the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Amortisation of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated or is classified as held for sale in accordance with the Standard on Non-current Assets Held for Sale and Discontinued Operations, GRAP 100.

Depreciation relating to revaluations

If the municipality decides to realise the revaluation reserve by usage of the asset, the portion of the revaluation reserve that is realised may be disclosed as realised, while the remaining balance remains unrealised. This realised portion may either be transferred from the revaluation surplus to the accumulated surplus or deficit or remain in the revaluation surplus account until derecognition of the asset.

12.9 DEPRECIATION AMOUNT AND DEPRECIATION PERIOD

Policy statement

The depreciation method and amortisation method shall be reviewed in each reporting period. The straight-line method shall be used in all cases unless Council determines otherwise. Depreciation and amortisation shall be calculated as follows:

Asset existed for whole financial year: $\frac{[(\text{Cost price or fair value} - \text{residual value})/\text{EUL}]}{}$

Asset was purchased during the year: $[(\text{Cost price or fair value} - \text{residual value})/\text{EUL}] \times \text{Remaining days in the financial year from day after purchase}/\text{Total days in the financial year}$

Criteria according to the Accounting standards

Determining the depreciable amount and depreciation

The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount. The depreciable amount of any PPE (except heritage assets and land) or investment property shall be allocated on a systematic basis over its useful life. The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.

Treatment of accumulated depreciation during a revaluation

When an item of PPE is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

Restated proportionately with the change in gross carrying value of the asset so that the carrying value of the asset after the revaluation equals its revalued amount. This method is often use when an asset is revalued by means of applying an index to its depreciated replacement cost, or

eliminated against the gross carrying value of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying value that is accounted for in the revaluation reserve.

The depreciation method or amortisation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. If that pattern cannot be determined reliably, the straight-line method shall be used.

Change in pattern of consumption

The depreciation method of PPE and the amortisation method and amortisation period of an intangible asset with a finite life shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3. The change will occur prospectively which means that the change will have an effect in the current and future periods.

Different depreciation methods include:

The straight-line method results in a consistent charge over the useful life if the asset's residual value does not change.

The diminishing method results in a decreasing charge over the useful life.

The unit of production approach method results in a charge based on the expected use or output.

The method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset shall be used. The method shall be applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

12.10 IMPAIRMENT

Policy statement

Impairment of PPE, shall be recognised as an expense in the Statement of Financial Performance when it occurs. Assets shall be reviewed for impairment on an annual basis. Adhoc impairments shall be identified as part of normal operational management as well as scheduled annual inspections of assets.

If an impaired asset's primary purpose is to generate income, the impairment shall be calculated using the cash generating method. If an impaired asset's primary purpose is not to generate income, the non-cash generating method shall be used to calculate the impairment.

Impairment criteria according to the Accounting standards Indicators of impairment

The municipality must assess at each reporting period or when one of the indicators below occurs, whether there is any indication that an asset has been impaired. In assessing whether there is an indication that an asset must be impaired, the municipality shall consider as a minimum the following indicators (for all assets except heritage assets):

External sources of information

- Cessations, or near cessations, of the demand or need for services provided by the asset.
- Significant long-term changes with an adverse effect on the municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.
- During the period, an asset's market value has declined significantly more than would be expected as a result of normal passage of time.
- Market interest rates have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

Internal sources of information

- Evidence is available of physical damage of an asset.
- Significant long-term changes with an adverse effect on the municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- A decision to halt the construction of the asset before it is completed or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.
- Significant higher costs of operating or maintaining the asset, compared with those originally budgeted; and
- Significantly lower service or output levels provided by the asset compared with those originally expected due to poor operating performances.

- Direct quantitative evidence of an impairment may be indicated by a significant long-term fall in the expected service or output levels provided by the asset.

The municipality should consider the following indicators as a minimum when assessing for impairments on heritage assets:

External sources of information

- During the period, a heritage asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- The absence of an active market for a revalued heritage asset.

Internal sources of information

- Evidence is available for physical damage or deterioration of a heritage asset.
- A decision to halt the construction of the heritage asset before it is completed or in a usable form.

The demand or need for services may fluctuate over time, which will affect the extent to which non-cash-generating assets are used in providing those services, but negative fluctuations in demand are not necessarily indicators of impairment. Where demand for services ceases, or nearly ceases, the assets used to provide those services may be impaired.

In assessing whether impairment has occurred, the municipality needs to assess changes in service potential over the long term. Impairment on Work in process

In assessing whether a halt in construction will trigger an impairment test, it shall be considered whether construction has simply been delayed or postponed, whether there is an intention to resume construction in the near future or whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postponed to a specific future date, the project may be treated as work in progress and is not considered as halted. Irrespective of whether there is any indication of impairment, the municipality shall also test: an intangible asset with an indefinite useful life; an intangible asset not yet available for use;

For impairment annually by comparing its carrying value with its recoverable service amount or recoverable amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an asset was initially recognised during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.

The ability of an intangible asset to generate sufficient future economic benefits or service potential to recover its carrying value is usually subject to greater uncertainty before the asset is available for use than after it is available for use; therefore the carrying value of intangible assets not yet available for use shall be tested each year.

Materiality and enduring nature

A change in parameter such as demand for the service, extent or manner of use, legal environment or government policy environment would indicate impairment only if such a change was significant and had or was anticipated to have a long term adverse effect (significant and enduring). The events and circumstances in each instance must be recorded. Where there are indications of impairment, the municipality must estimate the recoverable service amount of the asset when using the non-cash generating method or the recoverable amount of the asset when using the cash generating method and also consider adjustment of the remaining useful life, residual value and the depreciation method.

Overview of cash-generating assets/ units

Cash-generating assets are assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Holding an asset to generate a commercial return indicates that the municipality intends to generate

positive cash flows from the asset (or from a cash-generating unit of which the asset is a part) and earns a commercial return that reflects the risks involved in holding the asset. An asset may be held with the primary objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be non-cash generating even though it may be breaking even or generating a commercial return during a particular reporting period. Use of judgement to determine whether an asset/ unit are cash – or non-cash generating The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the municipality shall apply the provisions of an impairment of Cash-generating Assets. If the non-cash-generating component is an insignificant component of the arrangement as a whole, the municipality shall apply the provisions of an impairment for Cash-generating Assets.

In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such a case it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows, in this case judgement shall be used. The municipality shall develop criteria so that it can exercise judgement consistently. Annual review of impairment The municipality shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality shall estimate the recoverable service amount in the case of a non-cash-generating asset/ unit or the recoverable amount in the case of a cash-generating asset/ unit. Measuring recoverable service amount

The recoverable service amount is the higher of an asset's:

fair value less cost to sell; and its value

in use.

It is not always necessary to determine both an asset's fair value less cost to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

It may not be possible to determine the fair value less cost to sell because there is no basis for making a reliable estimate of the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In this case, the municipality may use the asset's value in use as its recoverable service amount.

If the asset's value in use does not exceed the fair value less cost to sell materially, the asset's fair value less cost to sell can be used as its recoverable service amount. In the case of non-cash-generating assets which are held on an on-going basis to provide specialised services or public goods to the community, the value in use of the asset is likely to be greater than its fair value less cost to sell.

Measuring the recoverable service amount of an intangible asset with an indefinite useful life: The most recent detailed calculation of such an asset's recoverable service amount in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

the most recent recoverable service amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and

based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination will be less than the asset's carrying amount is remote.

Fair value less cost to sell

The best evidence of an asset's fair value less cost to sell is a price in a binding sales agreement in an arm's length transaction. If there is no binding sales agreement but an active market, fair value less cost to sell is the asset's market price less the disposal costs. The appropriate market price is the current bid price. If there is no sales agreement or an active market for an asset, the fair value less cost to sell is based on the best information

available to reflect the amount the municipality could obtain, at reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties. The outcome of recent transactions for similar assets in the same industry will be considered. In the case of specialised buildings and man-made structures, the municipality may need to estimate the fair value using the depreciated replacement cost approach.

Value in use (Non-cash-generating asset)

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The remaining service potential of the asset is determined using one of the following approaches:

The depreciable replacement cost approach – The present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of the asset is the cost to replace the asset's gross service potential. The cost is depreciated to reflect the asset in its used condition. An asset may be replaced through replacement of its gross service potential (this method is used in the case of production assets rendering a service) or reproduction (this method is used in the case of a historical, cultural asset). The depreciated replacement cost is measured as the reproduction or replacement cost of the asset less accumulated depreciation calculated on a basis of such cost, to reflect the already consumed or expired service potential of the asset.

The optimised depreciable replacement cost approach – The rationale is that the municipality will not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. The determination of the replacement cost in the case of production assets or reproduction cost in the case of historical and cultural assets, on an optimised basis, reflects the service potential required of the asset.

Restoration cost approach – The present value of the remaining service potential of an asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing in the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciable replacement cost in the case of production assets or the reproduction cost in the case of historical and cultural assets.

(Used when impairments are identified from physical damage).

Service unit's approach– The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. The current replacement cost of the remaining service potential of the asset before impairment is usually determined as the depreciated replacement cost of the asset before impairment.

Value in use (Cash-generating assets)

The following elements shall reflect in the calculation of the value in use amount:

an estimate of future cash flows the entity expects to derive from the asset; expectations about possible variations in the amount or timing of those future cash flows; the time value of money, represented by the current market risk-free rate of interest; the price of bearing the uncertainty inherent in the asset; and

other factors, such as liquidity, that market participants would reflect in pricing the future cash flows the municipality expects to derive from the assets

Basis for estimates of future cash flows

Cash flow projections shall be based on reasonable and supportable assumptions that represent management's best estimate of a range of economic conditions that will exist over the remaining useful life of the asset. (External information will weigh greater)

Cash flows shall be based on the most recent financial budgets/ forecasts approved by management, but shall exclude any estimated future cash inflows and cash outflows expected to arise from future restructuring or from improving or enhancing the asset's performance. (These cash flows will actually cover a maximum of five years unless a longer period can be justified).

Cash flow projections beyond the periods covered by the recent budgets/ forecasts shall be estimated by extrapolating the projections based on the budgets/ forecasts using a growth rate which can be justified.

Composition of estimates shall include: projections on cash inflows from the

continuing use of the asset;

projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset and can be directly attributed, or allocated on a reasonable and consistent basis to the asset;

and

net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Future cash flows shall be estimated for an asset in its current condition. The future

cash flows shall not include: cash inflows or outflows from financing activities; or

income tax receipts or payments.

Discount rate:

The discount rate is a pre-tax rate that reflects current market assessments of: the time value of money,

represented by the current risk-free rate of interest; and the risk specific to the asset for which the future cash flow estimates have not been adjusted.

Impairment of an individual asset

If the carrying amount is higher than the recoverable amount or the recoverable service amount, impairment is incurred. The impairment amount will be the difference between the carrying amount and the recoverable amount or recoverable service amount. This impairment loss shall be recognised in surplus or deficit in the Statement of Financial Performance in the financial year it is incurred and the asset's value shall be decreased with the impairment amount. An impairment loss of a revalued asset shall be treated as a revaluation decrease.

Impairment of a cash-generating unit

If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality shall determine the recoverable amount of the cashgenerating unit to which the asset belongs.

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit even if some of the units are used internally.

For an impairment loss for a cash-generating unit the carrying amount shall be reduced to the highest of: its fair value less cost to sell (if determinable); its value in use (if determinable); and

Zero.

The amount of the impairment loss that will otherwise have been allocated to the asset shall be allocated pro rata to the other cash-generating assets of the unit. Where a non-cashgenerating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset shall be allocated to the

carrying amount of that cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit. The carrying amount of the non-cash-generating asset shall reflect any impairment losses at the reporting date which have been determined under the requirements of impairments of Non-cash-generating assets.

Reversal of impairment

The municipality shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the municipality shall estimate the recoverable service amount in the case of non-cash-generating assets/ units and recoverable amount in the case of cash-generating assets/ units.

In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased, the municipality shall consider, as a minimum, the following indications:

External sources of information

- Resurgence of the demand or need for services provided by the asset.
- Significant long-term changes with a favourable effect on the municipality have taken place during the period, or will take place in the near future, in the technological, legal or government policy environment in which FDDM operates.
- The market value has increased significantly.
- Market interest or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.

Internal sources of information

- significant long-term changes with a favourable effect on the municipality have taken place during the period, or are expected to take place in the near future, to the extent that, or manner in which, the asset is used or is expected to be used. (These changes include costs incurred during the period to improve or enhance an asset's performance or restructure the operation to which the asset belongs).
- a decision to resume construction of the asset that was previously halted before it was completed or in a usable condition.
- evidence is available from internal reporting that indicates that the service performance of the asset is, or will be, significantly better than expected.

An impairment loss recognised in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount or recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall be increased to the recoverable service amount or the recoverable amount. That increase shall decrease the impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that will have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for an asset shall be recognised immediately in surplus or deficit unless the asset is carried at revalued amounts in accordance with GRAP 17 (REVISED). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with GRAP 17 (REVISED).

After a reversal of an impairment loss is recognised, the depreciation charge/ amortisation of the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit shall be allocated to the cash-generating assets of the unit on the pro-rata basis according to the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal shall be allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of impairment for a cash-generating unit, the carrying amount of an asset shall not be increased above the lower of: its recoverable amount (if determined); and

the carrying amount that will have been determined (net of the amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that will otherwise have been allocated to the asset shall be allocated pro-rata to the other assets of the unit. Compensation from third parties

Compensation from third parties, for example insurance claims, for items of PPE that were impaired, lost or given up shall be included in surplus or deficit when the compensation is receivable and if any other actions occur it shall be treated in accordance with the accounting standard described below:

impairment of any asset shall be accounted for in accordance with the Standard on Impairment, GRAP 26 (Cash generating unit) or GRAP 21 (Non- cash generating unit).

derecognition of items, whether retired or disposed of is determined in accordance with the appropriate accounting standard;

compensation from third parties for items of PPE that were impaired, lost or given up is included in determining surplus or deficit when it becomes receivable. the cost of the item restored, purchased or constructed as a replacement is determined in accordance with the appropriate accounting standard.

The municipality is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount and recoverable service amount with its carrying amount annually and whenever there is an indication that the carrying amount exceeds the recoverable amount or the recoverable service amount; the intangible asset may be impaired.

Reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the municipality tests the asset for impairment by comparing its recoverable amount and its recoverable service amount to the carrying amount, and recognising any excess of the carrying value over the recoverable amount or recoverable service amount as an impairment loss.

12.11 DERECOGNITION

Policy statement

PPE, for which no future economic benefits or service potential are expected shall be identified and methods of derecognition and the associated cost considered by Council. Information on assets that reached the end of their useful lives, or are in the process of being sold are identified during the GRAP Workshops held annually. Assets to be sold, and the associated selling prices and selling costs, need to be approved by Council. The carrying amount of the asset shall be derecognised when no future economic benefits or service potential are expected from its use or if the asset is disposed and it was the Council's decision.

All derecognitions/ disposals must be communicated to the Finance department through a completed derecognition form together with a copy of the approved council resolution. The derecognition form should be completed by the relevant asset custodian, and then reviewed, signed and dated by the Technical Services Manager. The Finance department should update the financial asset register accordingly when receiving the

relevant documents. Derecognition criteria according to the Accounting standards The carrying value of an item of PPE, shall be derecognised:

- on disposal (including disposal through a non-exchange transaction);
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or (loss) arising from derecognitions shall be included in surplus or (deficit) when it is derecognised.

The gain or (loss) arising from the derecognition of an item of PPE, investment property or intangible assets shall be determined as the difference between the net disposal proceeds, if any, and the carrying value of the item. Exempted and non-exempted capital assets can be derecognised.

PPE that are associated with the provision of basic services cannot be disposed without the approval of Council.

12.12 DISCLOSURES

Policy Statement regarding PPE

In the financial statements, FDDM should disclose, for each class of property, plant and equipment recognised in the financial statements:

- (a) the measurement bases used for determining the gross carrying amount;
- (b) the depreciation methods used;
- (c) the useful lives or the depreciation rates used;
- (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- (e) a reconciliation of the carrying amount at the beginning and end of the period showing:
 - (i) additions;
 - (ii) disposal;
 - (iii) acquisitions through entity combinations;
 - (iv) increases or decreases resulting from revaluations (if any);
 - (v) impairment losses recognised in surplus or deficit in accordance with the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets (if any);
 - (vi) impairment losses reversed in surplus or deficit in accordance with the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets (if any);
 - (vii) depreciation;
 - (viii) other changes.

The financial statements should also disclose for each class of property, plant and equipment recognised in the financial statements:

- (a) the existence and amounts of restrictions on title and property, plant and equipment pledged as securities for liabilities;
- (b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;
- (c) the amount of contractual commitments for the acquisition of property, plant and equipment; and

- (d) if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.

If items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:

- (a) the effective date of the revaluation;
- (b) whether an independent valuer was involved;
- (c) the methods and significant assumptions applied in estimating the items' fair values;
- (d) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;
- (e) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.

FDDM should disclose the following information to users of financial statements for their relevant needs:

- (a) the carrying amount of any item of property, plant and equipment that was not used for any period of time during the reporting period that significantly impacted the delivery of goods and services of FDDM;
- (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
- (c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with the Standard of GRAP on Noncurrent Assets Held for Sale and Discontinued Operations; and
- (d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount; therefore FDDM should disclose these amounts.

Policy Statement regarding Investment Property FDDM should

disclose:

- (a) whether it applies the fair value model or the cost model;
- (b) if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property;
- (c) when classification is difficult, the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;
- (d) the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;
- (e) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment

property being valued. If there has been no such valuation, that fact shall be disclosed; (f) the amounts recognised in surplus or deficit for:

- (i) rental revenue from investment property;
- (ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and
- (iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period;
- (iv) the existence and amounts of restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal; and
- (v) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

FDDM should also disclose the following information because the municipality applies the cost model:

- (a) the depreciation methods used;
- (b) the useful lives or the depreciation rates used;
- (c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- (d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:
 - (i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;
 - (ii) additions resulting from acquisitions through entity combinations;
 - (iii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations and other disposals; (iv) depreciation;
 - (v) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with the Standard of GRAP on Impairment of Cash-generating Assets;
 - (vi) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;
 - (vii) transfers to and from inventories and owner-occupied property; and (viii) other changes.

Entities are encouraged to disclose the fair value of investment property when this is materially different from the carrying amount.

Policy Statement regarding impairments

FDDM should disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets.

FDDM should disclose the following for each class of assets:

- (a) The amount of impairment losses recognised in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are included.
- (b) The amount of reversals of impairment losses recognised in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are reversed.
- (c) The amount of impairment losses on revalued assets recognised directly in net assets during the period.
- (d) The amount of reversals of impairment losses on revalued assets recognised directly in net assets during the period.

FDDM which reports segment information in accordance with the Standard of GRAP on Segment Reporting should disclose the following for each segment reported:

- (a) the amount of impairment losses recognised in surplus or deficit and directly in net assets during the period; and
- (b) the amount of reversals of impairment losses recognised in surplus or deficit and directly in net assets during the period.

FDDM should disclose the following for each material impairment loss recognised or reversed during the period:

- (a) the events and circumstances that led to the recognition or reversal of the impairment loss;
- (b) the amount of the impairment loss recognised or reversed;
- (c) the nature of the asset;
- (d) For FDDM which reports segment information in accordance with the Standard of GRAP on Segment Reporting, the reported segment to which the asset belongs, based on FDDM's reporting format;
- (e) whether the recoverable service amount of the asset is its fair value less costs to sell or its value in use;
- (f) if the recoverable service amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market); and
- (g) if the recoverable service amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

FDDM should disclose the following information for the aggregate of impairment losses and aggregate reversals of impairment losses recognised during the period for which no information is disclosed:

- (a) the main classes of assets affected by impairment losses (and the main classes of assets affected by reversals of impairment losses); and,
- (b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.

FDDM should disclose in the notes information about the key assumptions used to determine the recoverable service amount of assets during the period that have a significant risk of causing a material adjustment to the carrying amounts of assets.

Policy statement regarding borrowing costs The

municipality shall disclose:

- (a) The accounting policy adopted for borrowing cost;
- (b) The amount of borrowing cost capitalised during the period; and
- (c) The capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation.

Policy statement regarding leases

- (a) For each class of asset, the net carrying amount at reporting date;
- (b) A reconciliation between the total of future minimum lease payments at reporting date and their present value for each of the following:
 - (i) Not later than one year;
 - (ii) Later than one year but not later than five years; and
 - (iii) Later than five years.
- (c) Contingent rent recognised as expense in the period;
- (d) The future minimum sublease payments to be received under a non-cancellable sublease at reporting date;
- (e) A general description of the lessee's material leasing arrangements, including:
 - (i) Basis on which contingent rent payable is determined;
 - (ii) The existence and terms of renewal or purchase options and escalation clause; and
 - (iii) Restrictions imposed by lease arrangements; and
- (f) The depreciation and finance charges relating to the leased asset.

Additional in the case of Finance leases of lessors:

- (a) Unearned finance revenue;
- (b) The unguaranteed residual value accruing to the benefit of the lessor;
- (c) Accumulative allowance for uncollectible minimum lease payments receivable; and
- (d) Contingent rents recognised as revenue in the period.

12.13 RE-CLASSIFICATION OF HERITAGE ASSETS

Policy statement

If heritage assets meet the definition of, and recognition criteria for, plant, property and equipment, FDDM should recognise the assets as PPE and not heritage assets.

FDDM uses the cost model, so transfers between heritage assets and inventory, PPE or intangible assets do not change the carrying amount of the assets transferred, or its cost for measurement or disclosure purposes.

Re-classification criteria according to the Accounting standards Assets are reclassified if the nature or function of the asset changes.

13. RECONCILIATION

Financial statements vs Budget

Where the financial statements and the budget are not prepared on a comparable basis (e.g. where the financial statements are on the accrual basis and the budget on the cash basis), the actual amounts presented on a comparable basis to the budget should be reconciled to the following actual amounts presented in the financial statements identifying separately any basis, timing and entity differences:

If an accrual basis is adopted for the budget, the total revenues, total expenses and net cash flows from operating activities, investing activities and financing activities to the actual amounts on the financial statements;
or

If a basis other than the accrual basis is adopted for the budget, the net cash flows from operating activities, investing activities and financing activities.

It is important that users of the financial statements understand the link between the budget and financial statements and hold the municipality accountable for their actual activities against what was planned, and how allocated resources were utilised.

According to GRAP 24 the municipality should make its budgets publicly available to present a comparison in their financial statements between:

Last approved and final budget amounts (which includes changes made by management within the prescribed limits);

Budget and actual amounts on a comparable basis; and

Explanations of material differences between budget and actual amounts, except where explanations have been included in other documents published in conjunction with the financial statements and cross reference to these documents is made.

Technical systems vs Financial asset register

All technical systems should be aligned with the financial asset register. It is the responsibility of the various departments to provide the Finance department with new asset information, for which the Finance department is responsible for updating in the financial asset register with. This relates not only to new completed project information but any asset information that will result in completeness of the asset register, for example third party roads that were transferred to the municipality because of a border change, should be made available to the Finance department.

At the end of the financial year the responsible FDDM official from the Finance department should liaisons with the Technical services Director and ensure that the information in the financial asset register agrees to the information reflected in the technical system of each department.

14. CAPITALISATION OF PROJECTS

Policy Statement

Capital expenditure vs operating expenditure

Project Managers must be trained on the difference between operating expenditure and capital expenditure. This will improve the budget planning process per department and overall in the municipality; the budget will provide a more accurate reflection of the actual income and expenditures of the municipality.

Knowledge of the different expenditure types will result in more accurate cost allocations to correct VOTE and Project numbers.

Capital expenditure will result in an inflow of economic benefits or service potential; for example the construction of a new reservoir, upgrade of a communication network to ensure more effective and efficient communication, and/ or replacement of a component with a similar type and size of component. When replacing a component the estimated useful life will increase.

Operating expenditure will result in a decrease of economic benefits or service potential, for example the replacement of any part of an asset smaller than a component will be classified as maintenance and repair work. Repair and maintenance will be expensed in the financial year it occurs and will not be capitalised. Repair and maintenance work should also not be budgeted for as capital expenditure or processed to a capital VOTE or Project by the Expenditure department. Maintenance work is done on an asset/ component to maintain the asset/ component in a good condition to reach the end of its estimated useful life, for example painting of a building. Asset Capitalisation Certificate

The Asset Capitalisation Certificate (ACC) is a control document that must be completed by the responsible Project Manager when a project is completed. The ACC must be completed accurately, signed and dated. The ACC must then be filed with all relevant project documentation for record keeping. Componentisation

The Project Manager will need to unbundle all completed projects into assets and componentise assets according to the IMQS approved Asset Hierarchy. The relevant departments should arrange for all Project Managers to follow the skills transfer program where componentisation of assets is explained in detail.

Project Managers must use the following project documents to componentise assets accurately:

- Bill of Quantities
- Close out report
- Invoices

The components must be updated in the correct upload format for the Financial Asset Register (FAR) in MS Excel. When the components are updated in the correct upload format for the Financial Asset Register (FAR) the Project Manager should send the componentised project MS Excel file to the Finance department.

The Finance department will be responsible for the upload of the componentised project on to the IMQS financial asset register.

15. SAFEGUARDING

Policy statement

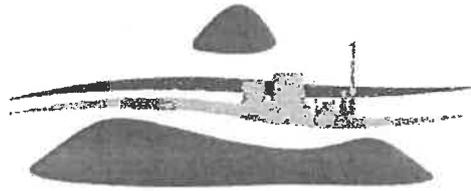
An asset safeguarding plan should be prepared for all PPE, indicating measures that are considered effective to ensure that all PPE, under control of the municipality are appropriately safeguarded from inappropriate use or loss, including the identification of asset custodians for all assets. The impact of budgetary constraints on such measures shall be reported to Council. The existence, condition and location of these assets shall be verified annually (in line with the assessment of impairment).

The municipality applies controls and safeguards to ensure that PPE, are protected against improper use, loss, theft, malicious damage or accidental damage.

The existence of PPE, heritage assets and investment properties are physically verified from time-to-time, and measures adopted to control their use. Budgetary constraints may however constrain the measures adopted.

The municipality may allocate day-to-day duties relating to such control, verification and safekeeping to asset custodians, and record such in the asset register.

All project documents, derecognition forms and associated council resolutions must be kept safe in accordance with FDDM's Document Management Policy. Documents should be stored alphabetically so it can be easily found for audit or review purposes. Each department should have a central storage room where documents are kept in a dry and ventilated environment and locked away. Copies of all project documents should also be kept safe by the Monitoring Performance Management division and copies of all derecognition forms and associated council resolutions should be kept safe by the Finance department; this will insure that the documents still exist in the case of fire or water damage at one of the stores.



Fezile Dabi

District Municipality

BANKING AND INVESTMENT POLICY

Date of approval by council:

Council Resolution number:

FEZILE DABI DISTRICT MUNICIPALITY

Banking And Investment Policy

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FEZILE DABI DISTRICT MUNICIPALITY

Banking And Investment Policy

Definitions

Accounting Standards Board	Was established by the Public Finance Management Act to set standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.
AGSA	Auditor-General of South Africa
Agreement	In relation to a <i>prohibited Practice in terms of the Competition Act 89 of 1998 as amended</i> , includes a contract, arrangement or understanding, whether or not legally enforceable
AO	Accounting Officer – (Municipal Manager)
Appropriation	Money set aside by Council for a specific purpose
CFO	The Chief Financial Officer of a municipality designated by Municipal Manager to be administratively in charge of the budgetary and treasury functions.
Current Asset (Inventory, Debtors And Cash)	An asset that would, in the normal course of operations, be consumed or converted to cash within 12 months after the last reporting date.
Current Liabilities	Current and existing obligations which are due and payable within the subsequent twelve months including but not limited to: <ul style="list-style-type: none">• Creditors;• Bank Overdrafts; and• Short term portion of the long term liabilities.
Current Replacement Cost	Is the cost of replacing an existing asset with a modern asset of equivalent capacity.
Demand Management	Demand management ensures that the resources required to support the strategic objectives are delivered at the correct time, at the right price, location, quantity and quality that will satisfy the needs.
Final Award	In relation to bids or quotations submitted for a contract, means the final decision on which bid or quote to accept.
Investments	In relation to funds of a municipality, means; preserving those funds not immediately required for the defraying of expenses and invested at approved financial institutions a person appointed in terms of section 83 of the Municipality Structures Act, 1998 (Act 117 of 1998) as the head of municipality administration;.
Long Term Contract	Means a contract with a duration period exceeding one year.
MFMA	Municipal Finance Management Act
MFO	Manager: Financial Operations

FEZILE DABI DISTRICT MUNICIPALITY

Banking And Investment Policy

MM	Municipal Manager (Accounting Officer)
MTEF	Medium Term Expenditure Framework
Municipal Stock	Stock certificate issued by the municipality as a proof of a long-term fixed period loan of which the capital is repayable at the end of the period. Interest is payable at predetermined intervals at a fixed rate.
Negotiable Certificate	A loan certificate that is tradable on the capital market.
Net Present Value (NPV)	The sum that results when the discounted value of the expected costs of an investment are deducted from the discounted value of the expected returns. If the NPV is positive the project in question is potentially worth undertaking.
Procedures	Policies are carried out by means of more detailed guidelines called "standard methods". A series of actions conducted in a certain order or manner.
Process	A series of actions or steps towards achieving a particular end.
Provider	A provider is the private person or institution that provides supplies, services or works to the Government.
Public Funds	All monies received by the municipality to perform the function allocated to them.
Risk Management	Risk management may be defined as the identification, measurement and economic control of risks that threaten the assets and earnings of a business or other enterprise.
Rules	Rules are statements that a specific action must or must not be taken in a given situation.
Security	A lien, pledge, mortgage, cession or other form of collateral intended to secure the interests of the creditor
Senior Manager	Is a manager referred to in section 56 of the Municipal Systems Act being someone reporting directly to the Municipal Manager.
Sourcing	Find out where to obtain.
Transfer	Shifting of allocated funds from one department (vote), line-item (vote number) or both to the other.
Treasury Guidelines	Means the guidelines on supply chain management issued by the Minister in terms of section 168 of the Act.
Written Or Verbal Quotations	Means quotations referred to in sub-section 11 of section 23 of this policy.

FEZILE DABI DISTRICT MUNICIPALITY

Banking And Investment Policy

1 Objective of Investment Policy

The council of the municipality is the trustee of the public revenues, which it collects or receives as a grant, and it therefore has an obligation to the community to ensure that the municipality's cash resources are managed effectively and efficiently.

The council therefore has a responsibility to invest these public revenues knowledgeably and judiciously, and must be able to account fully to the community in regard to such investments. These investments must only be made in the name of the Municipality

The investment policy of the municipality is therefore aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes. The effectiveness of the investment policy is dependent on the accuracy of the municipality's cash management programme, which must identify the amounts surplus to the municipality's needs, as well as the time when and period for which such revenues are surplus.

2 Legal Compliance

The municipality shall at all times manage its banking arrangements and investments and conduct its cash management policy in compliance with the provisions of and any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. 56 of 2003 and regulations issued in terms of this Act

3 Effective Cash Management

3.1 Cash Collection

All monies due to the municipality must be collected as soon as possible, either on or immediately after due date, and banked once a week of receiving the monies or within 48 hours once the amounts exceeds R1000.

The respective responsibilities of the Chief Financial Officer and other heads of departments in this regard is defined in a code of financial practice approved by the municipal manager and the Chief Financial Officer, and this code of practice is attached as Annexure II to this policy.

3.2 Payments to Creditors

Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques. Special payments to creditors shall only be made with the express approval of the Chief Financial Officer, who shall be satisfied that there are compelling reasons for making such payments prior to the normal bio-week / week / month end processing. The Chief Financial Officer shall ensure that payments to suppliers are made within 30 days of receiving the valid tax invoice provided that the service / goods was rendered / delivered satisfactory.

3.3 Cash Management Programme

The Chief Financial Officer shall prepare an annual estimate of the municipality's cash flows divided into calendar months, and shall update this estimate on a monthly basis. The estimate shall indicate when and for what periods and amounts surplus revenues may be invested, when and for what amounts investments will have to be liquidated, and when or if applicable, either long-term or short-term debt must be incurred. Heads of departments shall in this regard furnish the Chief Financial Officer with all such information as is required, timeously and in the format indicated.

Petty cash of the municipality shall be kept at the minimum level required to finance the day to day operation of the municipality. For this purpose a daily, weekly, monthly and annual cash flow forecast are required.

The Chief Financial Officer shall ensure that sufficient cash provision in the municipality's primary bank account is maintained for the payment of:

- Salaries;
- General expenditure;
- Capital cost (Interest and redemption);

FEZILE DABI DISTRICT MUNICIPALITY

Banking And Investment Policy

- Maintenance and repairs;
- Payment to the creditors and suppliers; and
- Contractual obligations including lease contracts

Due to the high bank charges with associated with cheque payments, payment shall, as far as possible, be done by electronic transfer-subject to strict control measures.

The Chief Financial Officer shall report to the finance portfolio committee or the executive mayor, on a monthly basis and to ordinary council meeting on a quarterly basis the cash flow estimate or revised estimate for such month or reporting period respectively, together with the actual cash flows for the month or period concerned, and cumulatively to date, as well as the estimates or revised estimates of the cash flows for the remaining months of the financial year, aggregated into quarters where appropriate. The heads of departments must provide necessary information to the Chief Financial Officer in order to make informed cash flow projections.

The cash flow estimates shall be divided into calendar months, and in reporting the Chief Financial Officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report.

Such report shall also indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned:

3.4 Management of Bank Overdraft

Where the municipality operates on a bank overdraft, the council may increase the current credit facility only when it is unavoidable to do so in terms of cash requirements, whether for the capital or operating budgets or to settle any other obligations.

The bank overdraft must be repaid within the financial year that it was incurred; and the council shall not renew or refinance a bank overdraft or short-term debt, whether its own debt or that of any other entity, where such renewal or refinancing will have the effect of extending the overdraft or short-term debt into a new financial year.

4 Investment Ethics

The Chief Financial Officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in consultation with the Accounting Officer where necessary, and in compliance with any policy directives formulated by the council and prescriptions made by the Minister of Finance.

In making such investments the Chief Financial Officer, shall at all times have only the best considerations of the municipality in mind, and, except for the outcome of the consultation process with the Accounting Officer, as the case may be, shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties.

Neither the Chief Financial Officer nor the accounting officer, as the case may be, may accept any gift, other than an item having such negligible value that it cannot possibly be construed as anything other than a token of goodwill by the donor, from any investment agent or institution or any party with which the municipality has made or may potentially make an investment. The gifts received shall be in line with the council policies.

5 Delegation of Powers

Activity	Responsibility
Alter policy	Council
Approve principal banker	Council
Approval of investments of a period exceeding 12 months	Council Approval of investments in foreign currency N/A per sec 163 and foreign currency risk

FEZILE DABI DISTRICT MUNICIPALITY

Banking And Investment Policy

Activity	Responsibility
Open / Close bank account	Municipal Manager
Cheque signatories	Municipal Manager and Chief Financial Officer Municipal Manager /Chief Financial Officer and Manager Financial operations / any other director
Electronic Transfers	
Final Authorisation of payments:	Municipal Manager/Chief Financial Officer and Manager Financial Operations, Senior Financial Accountant Financial Operations, Senior Financial Accountant
Uploading of transactions	Chief Financial Officer / Municipal Manager / Manager Financials
Capturing of transactions	Senior Expenditure Accountant / Senior Financial Accountant Expenditure Accountant / Expenditure Clerk / Finance Clerk / Financial Interns
Limits per transaction	Municipal Manager – No limits Chief Financial Officer – No Limits Manager Financial Operations – R 1 to R 1 000 000.00 Senior Financial Accountant – R 1 to R 1 000 000
Manage investments	Chief Financial Officer
Approve new borrowings	Council
Manage loans	Chief Financial Officer
Approve early redemption of loans	Municipal Manager
Deciding to make investments	Municipal Manager

6 Investment Principles

6.1 Limiting Exposure

Where large sums of money are available for investment the Chief Financial Officer shall ensure that they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the municipality. The Chief Financial Officer shall further ensure that, as far as it is practically and legally possible, the municipality's investments are so distributed that more than one investment category is covered (that is, call, money market and fixed deposits). Council shall not to borrow monies for the purpose of re-investment, as this is tantamount to speculation using public funds.

FEZILE DABI DISTRICT MUNICIPALITY

Banking And Investment Policy

6.2 Risk and Return

Although the objective of the Chief Financial Officer in making investments on behalf of the municipality shall always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved with regard to both the financial institution and the investment instrument concerned. No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions. The Chief Financial Officer shall consider any other administrative and operational risk such as failure to perform by the investment institution in his/her investment decision. Deposits shall be made only with registered deposit-taking institutions (see 6.3 below).

6.3. Acceptable Investments

In making the investments the Chief Financial Officer shall ensure that investments are made only with one or more of the investing institutions set out in Regulation 6 of the Act (Refer to attached Annexure III).

6.4 Payment of Commission

Every financial institution with which the municipality makes an investment (excluding short term deposit or call deposits) must issue a certificate to the Chief Financial Officer in regard to such investment, stating that such financial institution has not paid and will not pay any commission and has not and will not grant any other benefit to any party for obtaining such investment.

6.5 Call Deposits and Fixed Deposits

Before making any call or fixed deposits, the Chief Financial Officer, shall obtain quotations from at least three financial institutions. Given the volatility of the money market, the Chief Financial Officer, shall, whenever necessary, request quotations telephonically, and shall record in an appropriate register the name of the institution, the name of the person contacted, and the relevant terms and rates offered by such institution, as well as any other information which may be relevant (for example, whether the interest is payable monthly or only on maturity, and so forth). Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, e-mail or any other expedient means).

Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of part 8 below) shall be paid over only to such institution itself and not to any agent or third party. Once the investment has been made, the Chief Financial Officer shall ensure that the municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the municipality.

6.6 Restriction on Tenure of Investments

No investment with a tenure exceeding twelve months shall be made without the prior approval of the council, as the case may be. Chief Financial Officer may not make investment in a foreign currency as per section 163.

7 Control over Investments

The Chief Financial Officer shall ensure that proper records are kept of all investments made by the municipality. Such records shall indicate the date on which the investment is made, the institution with which the monies are invested, the amount of the investment, the interest rate applicable, and the maturity date. If the investment is liquidated at a date other than the maturity date, such date shall be indicated.

The Chief Financial Officer shall ensure that all interest and capital properly due to the municipality are timeously received, and shall take appropriate steps or cause such appropriate steps to be taken if interest or capital is not fully or timeously received.

The Chief Financial Officer shall ensure that all investment documents or certificates are properly kept.

The Chief Financial Officer shall ensure that the general ledger is reconciled to with the investment certificates on an annual basis.

FEZILE DABI DISTRICT MUNICIPALITY

Banking And Investment Policy

The Internal Auditor should at least audit the investments of the Council every six months and report to the Audit Committee and Council whether investments of Council are made, managed and controlled in line with this policy.

8 Other External Investments

From time to time it may be in the best interests of the municipality to make longer-term investments in secure stock issued by the National Government, Eskom or any other reputable state owned entity or institution, or by another reputable municipality. In such cases the Chief Financial Officer, must be guided by the best rates of interest pertaining to the specific type of investment, which the municipality requires, and to the best and most secure instrument available at the time.

No investment with a tenure exceeding twelve months shall be made without the prior approval of the council and without guidance having been sought from the municipality's bankers or other credible investment advisers on the security and financial implications of the investment concerned. If an advisor is engaged for this purpose, the Chief Financial Officer shall ensure that such advisor has the credentials specified for the "Investment Manager" in Regulation I to the Act.

9 Interest on Investments

The interest accrued on all the municipality's investments shall, in compliance with the requirements of generally accepted municipal accounting practice, be recorded in the first instance in the municipality's primary bank account as ordinary operating revenues, and shall thereafter be appropriated, at the maturity of each investment, to the fund or account in respect of which such investment was made.

In the case of the external finance fund, the Chief Financial Officer may reduce the amount which must be annually invested to redeem any particular loan by the amount of interest so accrued.

10 Raising Of Debt

The Accounting Officer is responsible for the raising of debt. All debt shall be raised in strict compliance with the requirements of the Municipal Finance Management Act 2003, and only with the prior approval of the council.

Long-term debt shall be raised only to the extent that such debt is provided for as a source of necessary finance in the capital component of the approved annual budget or adjustments budget. And such debt shall not be at foreign currency.

Short-term debt shall be raised only when it is unavoidable to do so in terms of cash requirements, whether for the capital or operating budgets or to settle any other obligations, and provided the need for such short-term debt, both as to extent and duration, is clearly indicated in the cash flow estimates prepared by the Chief Financial Officer. Short-term debt shall be raised only to anticipate a certain long-term debt agreement or a certain inflow of operating revenues.

11 Investments for the Redemption of Long-Term Liabilities

In managing the municipality's investments, the Chief Financial Officer shall ensure that, whenever a long-term (non-annuity) loan is raised by the municipality, an amount is invested at least annually equal to the principal sum divided by the period of the loan. Such investment shall be made against the bank account maintained for the external finance fund, and shall be accumulated and used only for the redemption of such loan on due date. The making of such investment shall be approved by the council at the time that the loan itself is approved. If the loan raised is not a fixed term loan, but an annuity loan, the Chief Financial Officer shall ensure that sufficient resources are available in the account maintained for the external finance fund to repay the principal amounts due in respect of such loan on the respective due dates.

12 Banking Arrangements

The Accounting Officer is responsible for the management of the municipality's bank accounts, but may delegate this function to the Chief Financial Officer. The Accounting Officer and Chief Financial Officer are authorised at all times to sign cheques and any other documentation associated with the management of such accounts. The

FEZILE DABI DISTRICT MUNICIPALITY

Banking And Investment Policy

Accounting Officer, in consultation with the Chief Financial Officer, is authorised to appoint two or more additional signatories in respect of such accounts, and to amend such appointments from time to time.

In compliance with the requirements of good governance, the Accounting Officer shall open a bank account for ordinary operating purposes, and shall further maintain a separate account for each of the following: the administration of the external finance fund and of the asset financing reserve or any other permissible reserve. One or more separate accounts shall also be maintained for the following: donations or contributions from whatever source; funds kept on behalf of other organs of state; trust funds; and the municipality's self-insurance reserve (if legally permissible). In determining the number of additional accounts to be maintained, the Accounting Officer, in consultation with the Chief Financial Officer, shall have regard to the likely number of transactions affecting each of the accounts referred to. Unless there are compelling reasons to do otherwise, and the council expressly so directs, all the municipality's bank accounts shall be maintained with the same banking institution to ensure pooling of balances for purposes of determining the interest payable to the municipality.

The Accounting Officer shall invite tenders for the placing of the municipality's bank accounts every five years and such new banking arrangements to take effect from the first day of the ensuing financial year. However, such tenders may be invited at any earlier stage, if the Accounting Officer, in consultation with the Chief Financial Officer, is of the opinion that the services offered by the municipality's current bankers are materially defective, or not cost-effective, and the Executive Mayor agrees to the invitation of such tenders.

13 Reporting Obligations

13.1 Activity by Frequency

- Cash flow estimates of each month and actual cash flows:

Chief Financial Officer	Finance Portfolio Committee	Monthly
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- Cash flow estimates of each month and actual cash flows:

Chief Financial Officer	Council	Quarterly
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- Monthly projections:

Head of Departments	Chief Financial Officer	Monthly and Quarterly
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- Implementation of this policy:

Internal Auditor Audit	Committee and Council	Annually
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- Bank Reconciliation:

Financial Officer	Financial Manager Operations	Daily and Monthly
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- Investment reconciliation:

Financial Officer	Financial Manager Operations	Monthly
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In addition to reporting obligations specified above, the Chief Financial Officer shall report monthly to the Executive Mayor / Finance Portfolio Committee and quarterly to Council on the following:

- The market value of each investment at the beginning of the month;
- Each additional investment made during the month;
- Each investment re-called during the month; and
- Total interest received and/or accrued for the month

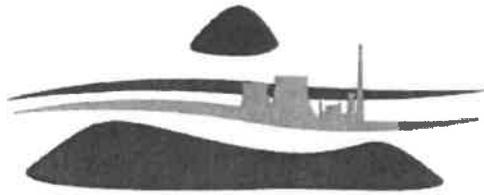
Where an investment has been re-called for the amount less than its opening market value, the Chief Financial Officer shall provide an explanation for such loss.

FEZILE DABI DISTRICT MUNICIPALITY

Banking And Investment Policy

14 Review of the Policy

The council shall ensure that its banking and investment policy is reviewed as part of the process of preparing its annual budget.



Fezile Dabi

District Municipality

ASSET MANAGEMENT POLICY

Date of approval by council:

Council Resolution number:

FEZILE DABI DISTRICT MUNICIPALITY

Asset Management Policy

LIST OF ACRONYMS

Acronym	Meaning
AMSC	- Asset Management Steering Committee
AMT	- Asset Management Team
AR	- Asset Register
ASB	- Accounting Standards Board
BOOT	- Build-own-operate-transfer
CFO	- Chief Financial Officer
CRC	- Current Replacement Cost
DME	- Department of Minerals and Energy
CoGTA	- Department of Cooperative Governance and Traditional Affairs
DPW	- Department of Public Works
DRC	- Depreciated Replacement Cost
DWAF	- Department of Water and Forestry Affairs
EDIH	- Electrical Distribution Industry Holdings Pty Ltd
EUL	- Expected Useful Life
FDDM	- Fezile Dabi District Municipality
GAAP	- Generally Accepted Accounting Practice
GAMAP	- Generally Accepted Municipal Accounting Practice
GIAMA	- Government Immovable Asset Management Act
GIS	- Geographical Information System
GPS	- Global Positioning System
GRAP	- Generally Recognised Accounting Practices
IAS	- International Accounting Standards
IDP	- Integrated Development Plan
IFRS	- International Financial Reporting Standards
IIMM	- International Infrastructure Management Manual
IMESA	- Institute of Municipal Engineering of Southern Africa
IPSAS	- International Public Sector Accounting Standards
IT	- Information Technology
LAR	- Lease Asset Register
LGCAMG	- Local Government Capital Asset Management Guideline
MFMA	- Municipal Finance Management Act, No. 56 of 2003
MM	- Municipal Manager

FEZILE DABI DISTRICT MUNICIPALITY

Asset Management Policy

DEFINITIONS

“Accounting Standards Board” was established by the Public Finance Management Act to set standards of Generally Recognized Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.

“Assets” are resources controlled by an entity as the result of past events and from which future economic benefits or future service potential are expected to flow to the entity.

“Asset Custodian” is a person in any position or level in the organisation entrusted with the safeguarding and use as well as the condition monitoring of a specific asset.

“Asset Management” is a broad function and includes a structured process of decision-making, planning and control over the acquisition, use, safeguarding and disposal of assets to maximise their service delivery potential and benefits, and to minimise their related risks and costs over their entire life.

“Asset Manager” is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the municipality’s assets in accordance with the municipality’s standards, policies, procedures and relevant guidelines.

“Asset categories” are the five main asset categories defined by GRAP. These are:

- **Infrastructure assets**-are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.
- **Community assets**-are defined as any asset that contributes to the community’s well-being. Examples are parks, libraries and fire stations.
- **Heritage assets**-are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- **Investment properties**-are defined as properties that are acquired for economic and capital gains. Examples are office parks and underdeveloped land acquired for the purpose of resale in future years.
- **Other assets**-are defined as assets utilized in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

“Asset Register” is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements.

“Attractive items” are items of property, plant or equipment that are not significant enough for financial recognition but are attractive enough to warrant special safeguarding. These assets are also referred to as inventory.

FEZILE DABI DISTRICT MUNICIPALITY

Asset Management Policy

DEFINITIONS – (Continued)

“**Depreciated Replacement Cost**” is a measure of the current value of an asset based on its current replacement cost less an allowance for deterioration of condition to date (based on the fraction of remaining useful life/expected useful life).

“**Economic Life**” is either:

- (a) the period over which an asset is expected to yield economic benefits or service potential to one or more users, or
- (b) the number of production or similar units expected to be obtained from the asset by one or more users.

“**Enhancement/Rehabilitation**” is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential for example, remaining useful life, capacity, quality, and functionality.

“**Fair value**” is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm’s length transaction.

“**Financially Sustainable**”, in relation to the provision of a municipal service, means the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, including budgeted income, grants and subsidies for the service, is sufficient to cover the costs of—

- (a) the initial capital expenditure required for the service;
- (b) operating the service; and
- (c) maintaining, repairing and replacing the physical assets used in the provision

“**GAMAP**” stands for “generally accepted municipal accounting practice”.

“**GRAP**” stands for “generally recognised accounting practice”.

“**Infrastructure**” means assets that usually display some or all of the following

Characteristics

- (a) they are part of a system or network;
- (b) they are specialised in nature and do not have alternative uses;
- (c) they are immovable; and
- (d) they may be subject to constraints on disposal

“**Minor Asset**” is an asset other than a capital asset, which is fully depreciated in the year of acquisition.

“**Modern Equivalent Asset**” is an asset that replicates the existing asset with the most cost-effective asset performing the same level of service. This includes improvements in technology that may change the nature, life and value of an asset.

“**Municipal Manager**” is the person defined as the Accounting Officer of a municipality

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"Stewardship" is the act of taking care of and managing property, plant or equipment on behalf of another.

DEFINITIONS – (Continued)

"Useful life" is either:

(a) *The estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the municipality,*

Or

(b) *The estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the municipality.*

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It also complies with the standards specified by the Accounting Standards Board. The relevant currently recognized accounting standards include:

- GRAP 1 Presentation of financial statements
- GRAP 17 Property Plant and Equipment GRAP 12 Inventories
- GRAP 16 Investment property
- IAS 36 Impairment of assets
- GRAP 102 Intangible assets
- IAS 17 Leases

This policy does not overrule the requirement to comply with other policies like supply chain or budget policies.

3. DISCIPLINARY PROCESSES

Transgression of this policy constitutes financial misconduct and depending on the facts may lead to criminal proceedings.

4. COORDINATION FOR SUCCESSFUL ASSET MANAGEMENT IMPLEMENTATION

The success for implementation of effective asset management depends on an organisational commitment to change and an attitude of continuous improvement, and close cooperation between the CFO, finance staff, senior managers and operational managers involved in service delivery.

4.1 Structures for Asset Management

4.1.1 Asset management steering committee (AMSC)

The Municipal Manager shall establish an Asset Management Steering Committee to provide technical assistance in relation to disposal, acquisition of assets and other matter as prescribed herein.

The composition of an Asset Management Steering Committee of Fezile Dabi District Municipality will be as follows:

1. The Municipal Manager (Chairperson);
2. Chief Financial Officer (Convenor);
3. Asset Manager;
4. IDP Manager;
5. Information Technology Manager; and
6. Technical Manager

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5. ASSET MANAGEMENT

The goal of asset management is to achieve the required level of service in the most cost effective manner, which is achieved through management of the asset's life cycle.

To be effective, asset management shall include the following:

- Service level needs, identified in the IDP process, (these shall drive asset management practices and decision-making);
- Asset management plans that are an integral part of the municipal planning process;
- Asset acquisition decisions that are based upon the evaluation of alternatives, including demand management and non-asset solutions;
- Asset acquisition proposals that include a full business case, including costs, benefits and risks across each phase of an asset's life cycle;
- Defined responsibility and accountability for performance, safe custody and use.
- Disposal decisions based upon an analysis of disposal options, designed to achieve the best possible return for the municipality and made in accordance with the provisions of the MFMA;
- Sound risk-based internal controls supporting all asset management practices.

5.1 Asset Strategy

An integrated approach towards asset planning and management will enable the FDDM to deliver quality, asset-based services efficiently and effectively. By integrating asset planning with its overall planning processes, the municipality is better able to make the most appropriate decisions about the asset profile, particularly when responding to such factors as:

- new or changing service delivery requirements;
- different methods of service delivery, and
- evolving technology i.e. Information Technology equipment

Proper planning will provide a comparison between the assets required to support service delivery and those assets currently available and/or programmed for acquisition. In this manner the municipality is able to identify:

- existing assets that are required and are presently capable of servicing program delivery needs;
- existing assets that are required but are below the necessary standard and need refurbishment to meet service delivery needs; and
- assets which must be acquired to meet service delivery needs.

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- The municipal manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- The senior managers, and users are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- The chief financial officer has delegated or otherwise assigned responsibility for performing these functions but they will remain accountable for ensuring these activities are performed.

The Asset Manager shall be responsible for:

- ensuring that, when acquiring assets, decisions on how to account for the transactions, e.g. whether they should be capitalised or expensed, are made in full compliance with the MFMA, accounting standards and the LGCAMG;
- ensuring that the purchase of capital assets complies with all municipal policies and procedures, including the acquisition plans;
- ensuring that the correct date on which an asset is put into service or commissioned is properly recorded in the asset register and that the appropriate financial data are recorded;
- ensuring that all capital assets are duly processed, identified and recorded before issued for use;
- ensuring that all capital assets under the asset manager's control are appropriately safeguarded from inappropriate use or loss, including appropriate control over the physical access to these assets and regular asset verification to ensure losses have not occurred, and ensuring that any known losses are immediately reported to the CFO.
- ensuring that proper procedures for the movement of assets from one user to another, for maintenance, or disposals outside the municipality are in place and enforced;
- ensuring capital assets are utilised for the purpose for which they were acquired by the municipality.

The asset manager shall delegate custodianship of assets to specific users. The custodians will be required to perform functions assigned to the asset manager in respect of their specific assets, but the Asset Manager will remain accountable for ensuring that these activities are performed.

Senior Managers must ensure that:

- municipal resources assigned to them are utilised effectively, efficiently, economically and transparently.

This would include:

- complying with systems of management and internal controls established by the municipality;
- preventing inappropriate losses;
- appropriately managing, safeguarding and maintaining assigned assets; and
- providing all asset-related information as and when required.

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7.2 Acquisition

The time frame for the acquisition process/project start date, and the timing and amount of required capital outlays shall be considered and included in the IDP and annual medium term budgets.

Expenditure on a capital project will be approved through the budget process. Part of this approval process shall include the tabling of the business case (including life-cycle costs and revenue) to council.

Closer to the actual acquisition date, the initial estimates and the preferred options shall be re-assessed, and, if necessary, an updated business case prepared for the approval of the acquisition. Once the acquisition has been approved, the actual purchase will be done through the Supply-Chain unit.

7.2.1 Decision to lease or buy

The decision to lease or buy an asset is where the market can provide generic assets to meet a municipality's service needs. Since that leases have a built-in interest cost, this shall be considered when evaluating whether to lease or buy (cash) an asset.

Where an asset is leased, the details thereof shall be recorded in the Lease Register, additional details, which shall also be recorded, include:

- lease start and completion dates;
- first-instalment date;
- asset-fair value;
- implicit interest rate; and
- lease payments.

Information in the register shall be reviewed annually to confirm that the decision remains the most economical one.

7.2.2 Decision to buy or enter into a PPP

When a decision is made to enter into a PPP, the municipality shall consult with the National Treasury for guidance and other accounting implications. The municipality shall enter into PPP only if the Municipal Manager can demonstrate to Council that the agreement will:

- provide value for money;
- be financially sustainable for the municipality; and

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Accountability for the operation and maintenance of capital assets shall be delegated from the municipal manager, through the senior managers, to the asset manager. The asset manager is accountable for ensuring that municipal resources assigned to him/her are utilised effectively, efficiently, economically and transparently.

7.3.1 Maintenance plans

Every senior manager (head of department) shall ensure that a maintenance plan in respect of every new capital asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the council of the municipality for approval.

If so directed by the Municipal Manager, the maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.

The senior manager (head of department) controlling or using the capital asset in question, shall not later than end of June annually, report to the Asset Management Steering Committee of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

For some specialised assets the technical requirements for scheduled maintenance are provided by the manufacturer. These schedules shall be taken into account when planning for the long and medium term and appropriate budget provision made to ensure adherence to schedules.

Certain categories of assets requiring little or no regular maintenance (for example furniture and fittings), shall be excluded from a maintenance programme, however, these assets shall be subject to regular, periodic inspection of condition.

7.3.2 Deferred maintenance

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any capital asset, the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the Chief Financial Officer shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the head of department controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

7.3.3 General maintenance of assets

Every senior manager shall be directly responsible for ensuring that all assets under their responsibility are properly maintained and in a manner which will ensure that such assets attain their useful lives.

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The municipal manager may approve the disposal of an item of property, plant and equipment as delegated by the municipal council. The delegations to approve contracts for the disposal an item of property, plant and equipment are stated in the Supply Chain Management Policy.

7.4.1 Asset disposal methods

Assets can be disposed of in the following methods;

- Transfer
- Auctions;
- Bidding;
- Donations;
- Destruction; and
- Scrapping

7.4.2 Accounting treatment on Disposal

An item of capital asset shall be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from its disposal.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment shall be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and shall be recognized as revenue or expense in the income statement.

8. ACCOUNTING TREATMENT

8.1. Recognition of property, plant and equipment

An item of property, plant and equipment will be recognized as an asset when:

- *It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,*
- *The cost of the asset to the municipality can be measured reliably,*
- *The municipality has gained control over the asset,*
- *The costs is above the recognition threshold, and*
- *The asset is expected to be used during more than one financial year.*

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8.6. Depreciation (excluding land)

The depreciable amount of an item of property, plant and equipment shall be allocated on a systematic basis over its useful life.

The depreciation method used shall reflect the pattern in which economic benefits or potential service provisions are consumed by the municipality.

The depreciation charge for each period will be recognized as an expense against the budget of the relevant head of department unless it is included in the carrying amount of another asset.

The depreciation method will be straight line unless the Chief Financial Officer is convinced that another method is more appropriate.

Residual value

Residual values are applicable only on buildings and vehicles. Depreciation shall be calculated on cost less residual values. A residual value of 10% is applicable on both vehicles and buildings.

8.7. Initial determination useful life

Each Head of department needs to determine the useful life of a particular item or class property, plant and equipment through the development of a strategic asset management plan that forecasts the expected useful life that asset. This shall be developed as part of the Pre-Acquisition Planning that would consider the following factors:

- The operational, maintenance, renewal and disposal program that will optimize the expected long term costs of owning that asset,
- Economic obsolescence because it is too expensive to maintain,
- Functional obsolescence because it no longer meets the municipalities needs,
- Technological obsolescence,
- Social obsolescence due to changing demographics, and
- Legal obsolescence due to statutory constraints.

Spares purchased specifically for a particular asset, or class of assets, and which would become redundant if that asset or class was retired or use of that asset or class was discontinued, must be considered to form part of the historical cost of that asset or class. The depreciable amount of such spares must be allocated over the useful life of the asset or class.

8.8. Review of useful life

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8.10. Reduction of the carrying amount

The carrying amount of a non-current asset shall be reviewed annually to assess whether or not the recoverable amount has declined below the carrying amount.

- When such a decline has occurred, the carrying amount shall be reduced to the recoverable amount.
- The amount of the reduction shall be recognized as an expense immediately, unless it reverses a previous revaluation in which case it shall be charged to a non-distributable reserve.
- For assets providing economic benefits, the recoverable amount is the net present value of future ownership.
- For assets providing future service delivery, the recoverable amount is the remaining proportional of its useful life, service capacity or quality of service that is not intended to be restored by normal maintenance programs.

8.11. Subsequent increase in recoverable amount

A subsequent increase in the recoverable amount of an asset, previously written down due to a decline in the carrying amount shall be written back when the circumstances and events that led to the write –down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

The amount written back shall be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

8.12. Reduction of the carrying amount

The carrying amount of a non-current asset shall be reviewed annually to assess whether or not the recoverable amount has declined below the carrying amount.

When such a decline has occurred, the carrying amount shall be reduced to the recoverable amount.

9. CAPITALIZATION CRITERIA: MATERIAL VALUE

No item with an initial cost or fair value of less than R1 000 (VAT excluded) shall be recognised as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense.

Every head of department shall, however, ensure that any item with a value in excess of R 1,000 (VAT excluded), and with an estimated useful life of more than one year, shall be classified and included in the register of attractive assets / inventory.

10. CAPITALIZATION CRITERIA: INTANGIBLE ASSETS

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Included in this category are items such as refrigerators, microwave ovens, etc.

Machinery and Equipment

Assets used in the service delivery of the municipality.

Vehicles

Vehicles include all forms of motorised transport, whether they are used to transport people or objects.

Investment property

Investment property is property held by the municipality for rental to others or for capital appreciation.

13. CARRYING VALUES OF CAPITAL ASSETS

All capital assets shall be carried in the asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation.

The only exceptions to this rule shall be revalued assets in respect of which no value is recorded in the asset register.

14. APPROPRIATE CODING

All movable assets purchased shall be bar-coded upon receipt and included in the Asset Register.

15. INSURANCE FOR CAPITAL ASSETS

The Municipal Manager shall ensure that all movable capital assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

The Municipal Manager shall recommend to the council of the municipality, after consulting with the Chief Financial Officer, the assets to be insured on the replacement value. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

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A fixed asset shall be capitalised, that is, recorded in the fixed assets register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, whereafter it shall be appropriately capitalised as a fixed asset.

A fixed asset shall remain in the fixed assets register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset.

17. VERIFICATION AND CONDITION ASSESSMENT OF TANGIBLE CAPITAL ASSETS

Every senior manager shall at least once during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

Every senior manager shall promptly and fully report in writing to the Chief Financial Officer in the format determined by the Chief Financial Officer, all relevant results of such fixed asset verification, provided that each such asset verification shall be undertaken and completed as closely as possible to the end of each financial year, and that the resultant report shall be submitted to the Chief Financial Officer not later than 30 June of the year in question.

The municipality shall undertake regular assessment of the conditions and performance of all the tangible capital assets in order to determine the ability of these assets to continue to perform and provide services into the future. Where appropriate, information collected on the condition shall be recorded in the asset register and updated in the strategic plans.

18. ALIENATION OF FIXED ASSETS

In compliance with the principles and prescriptions of the Municipal Finance Management Act, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

Every head of department shall report in writing to the Chief Financial Officer on all fixed assets controlled or used by the department concerned which such head of department wishes to alienate by public auction or public tender. The Chief

Financial Officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the council or the Municipal Manager of the municipality, as the case may be, recommending the process of alienation to be adopted.

Once the fixed assets are alienated, the Chief Financial Officer shall delete the relevant records from the fixed asset register.

If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the income statement of the municipality. If the proceeds of the alienation, on the other hand, are

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20.2 Internal Controls over the Asset Registers

- Controls around the asset registers shall be sufficient to provide an accurate, reliable and up to date account of assets under their control to the standards specified by the chief financial officer and required by the auditor-general.
- These controls will include physical management and recording of all acquisitions, assignments, transfers, losses and disposals of their assigned assets as well as regular stock-takes and systems audits to confirm the adequacy of their controls.

20.3 Physical Receipting and Management

20.3.1 Responsibilities of the senior managers

- The senior manager must ensure that the purchase of capital assets complies with all municipal policies and procedures.
- The senior manager must ensure the all moveable capital asset is duly processed and identified before it is received into their stewardship.
- The senior manager must ensure all moveable assets received into their stewardship are appropriately safeguarded for inappropriate use or loss. This will include appropriate control over the physical access to these assets and regular stock takes to ensure any losses have not occurred. Any know losses shall be immediately reported to the chief financial officer.
- The asset manager must ensure that property, plant and equipment is appropriately utilized these assets for the purpose that the municipality acquired them.

20.4 Receipt of property plant and equipment

- The supply chain management unit will manage the receipting of movable assets
- The process of receipting will include:
 - Review of the authority to purchase including compliance with all procurement policies and procedures and budgetary limits.
 - Review of all details and specification as per original order.
- The Asset Manager shall be responsible for registering the asset into the asset register upon receipting and assignment of the asset to the appropriate head of department.

20.4.1 The date of acquisition

- The date of acquisition of property, plant and equipment is deemed to be the time when legal title and control passes to the municipality.
- This may vary for different categories of assets but will usually be the point of time when the municipal store approves payment for that item of property, plant or equipment.

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- The deterioration of economic performance of asset concerned.

Where the assessed costs of holding impaired assets exceed the benefits thereof, such assets shall be considered for disposal. Impairment test shall be done on an annual basis. Impairment of assets will be performed in line with IAS 36 and other appropriate financial reporting standards.

24. MANAGEMENT OF PORTABLE AND ATTRACTIVE ITEMS (INVENTORIES)

Assets costing than R1 000 (VAT excluded) are deemed to be attractive item unless that type of asset is specifically excluded by the Chief Financial Officer. The requirements to manage attractive items include:

- Receiving these items through specified control points.
- Maintaining and updating attractive items register for these receipts.
- Delivery and assignment of an attractive item to a specified position.
- Regular stock takes by the assigned person to ensure these attractive items are being appropriately safeguarded.
- Regular audits by the finance department to ensure attractive items are being appropriately managed by the assigned persons.
- Recording and reporting of any disposal or loss of these attractive items to the CFO and adjustment of the attractive items register.
- Attractive items will not be:
 - Capitalized as an asset,
 - Depreciated,
 - Revalue,
 - Recording in the financial asset register, or
 - Otherwise treated as an asset.

25. MONITORING, EVALUATION AND REPORTING

25.1 Monitoring

The Internal Audit will monitor the impact of this policy on service delivery.

25.2 Evaluation

The Internal Audit will evaluate the policy and report on its effectiveness to Council annually.

25.3 Reporting obligations

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Mini-busses	5
Passenger motor vehicles	5
Motor cycles	3
Water tanks	20
PEDESTRIAN MALLS	
Footways	20
Kerbing	20
Paving	20
EQUIPMENT	
Lawn mowers	2
Compressors	5
Laboratory equipment	5
Radio equipment	5
Firearms	5
Telecommunication equipment	5

The Chief Financial Officer shall estimate the expected useful lives of any other assets or categories of assets that are not listed in the schedule above, using his discretion. The CFO may assign a useful life to an asset, that's different from the one listed on the schedule after taking into consideration, the nature and use of any asset.

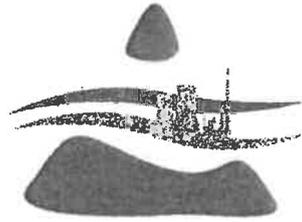
The expected useful lives in the schedule above shall not form the basis of any review of useful lives of any asset subsequent to its initial expected useful life.

27. ANNEXURE: PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 2003

A municipality may not alienate any capital asset required to provide a minimum level of basic municipal services.

A municipality may alienate any other capital asset, but provided

- the council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services, and
- the council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.



Fezile Dabi

District Municipality

Commitments Policy

Date of approval by council:

Council Resolution number:

DEFINITIONS:

Commitment: An undertaking made to commit substantial expenditure at a future date. Such undertakings are deemed constructive obligation and must be disclosed in the financial statements of the municipality even if the expense has not yet been incurred to have become an actual liability.

Approved and Contracted Commitments: where the expenditure has been approved and the contract has been awarded at the reporting date.

Approved but not yet contracted commitments: where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalization at the reporting date.

Capital Expenditure: expenditure incurred to purchase, upgrade or construct physical assets such as buildings for which there will be a long-term benefit. Long-term is defined as longer than one year.

Current Expenditure: the purchase of goods and services for which there will be a short-term benefit and incurred in the normal course of business. Short-term is defined as less than one year.

Constructive obligation: is an obligation that derives from a municipality's actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1. OBJECTIVES

- a) To ensure that appropriate recognition criteria and measurement bases are applied to commitments.
- b) To ensure that appropriate, sufficient information is disclosed in the notes to the financial statements of the municipality relating to commitments.
- c) To ensure that only genuine commitments are disclosed in the financial statements of the municipality.

2. LEGISLATIVE CONTEXT

Section (62)(1) of Municipal Finance Management Act, 56 of 2003 (MFMA) stipulates that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:

- a) *that the resources of the municipality are used effectively, efficiently, economically and transparently;*
- b) *that full and proper records of the financial affairs of the municipality are kept;*
- c) *that the municipality has and maintains effective, efficient and transparent systems-*
 - i. *of financial and risk management and internal control; and*
 - ii. *of internal audit complying with and operating in accordance with any prescribed norms and standards;*
- d) *that irregular and fruitless and wasteful expenditure and other losses are prevented;*
- e) *that expenditure is in accordance with the operational policies of the municipality; and*
- f) *that disciplinary or, when appropriate, criminal proceedings, are instituted against any official of the municipality who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15.*

3. POLICY PRINCIPLES

- a) Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.
- b) The Chief Financial Officer must be informed of any material commitment that may arise during the course of the business of the municipality.
- c) The Chief Financial Officer shall, at financial year end, perform an assessment to identify any material commitments so as to ensure the completeness, relevance and accuracy of the commitments that must be recorded and reported at financial year end.

4. COMMITMENTS

4.1 General

Commitments (operating and capital) that must be accounted for shall only relate to those for which an official purchase order was issued or through the execution of a contractual obligation entered into in the name of the municipality.

In the case of a contractual obligation, it is also preferable that the user departments must initiate and facilitate the issuing of an official purchase order in accordance with municipality's Supply Chain Management Policy and Procedures for a commitment to be recognized.

The municipality may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment shall exist at financial year end as the municipality has contracted for expenditure but no work has started and no payments have been made.

4.2 Financial Year End Commitments

Funding appropriated in an approved budget or adjustment budget for capital works and / or purchases shall be committed in accordance with the Supply Chain Management Policy as well as this Policy.

Funding commitments made by way of official order, contractual or other expenditure obligations (e.g. loans agreements, lease agreements, etc.), which remain substantially, partially or wholly uncompleted (i.e. not commenced) at the end of the applicable financial year shall be reviewed for validity.

Certain issued purchase orders, particularly those which relate to once-off purchases for ordinary operating expenditure, which have been outstanding for more than 60 days and not yet executed at financial year end, shall be officially cancelled at financial year end.

A register of orders to be cancelled must be maintained throughout and updated with each cancellation and must be submitted to the Chief Financial Officer for review and approval prior to any cancellation being effected.

Orders shall be cancelled by the a duly delegated official, after approval thereof by the Chief Financial Officer.

When user departments become aware that commitments for 'recurrent services or multi-year contracts' will necessitate a financial commitment crossing over to the next financial year, the departmental manager must advise the Chief Financial Officer (or delegate) of this likelihood and the reasoning thereto.

Commitments register shall be maintained which will contain all the financial commitments of the municipality throughout the financial year.

Any funds not specifically carried forward by commitment are lost in a budgetary sense at the end of the financial year and it will remain the responsibility of the user departments to re-budget afresh for those services or goods for which orders were cancelled or the budget was not utilized at the end of the financial year.

In calculating commitments the following should be taken into account pertaining to tenders awarded:

- the period of the tender awarded;
- amounts already paid pertaining to that tender/contract;
- amounts for which invoices have been received and which are therefore included in accruals should be deducted;
- commitments loaded on the procurement and contractors register system;
- commitments not loaded on the procurement and contractors register system;

5. DISCLOSURES

The municipality shall disclose as a note to the financial statements, the nature and amount of each material class of capital expenditure commitment as well as non-cancellable operating leases contracted for at the reporting date. Commitments for the supply of inventories, where a liability under a contract or purchase order has not yet been recognised, shall not be disclosed as a commitment.

The foregoing disclosure requirement does not divest the municipality from maintaining a commitments register for material, operating commitments for each financial year.

6. REVIEW AND APPROVAL

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.

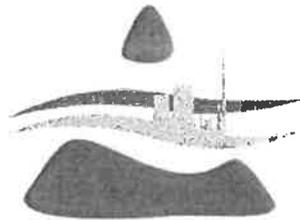
ANNEXURE A: EXAMPLE OF THE REQUIRED DISCLOSURE NOTE FOR CURRENT AND / OR CAPITAL COMMITMENTS:

	200x/0x	200x/0x
Current expenditure		
Approved and contracted		
Approved but not yet contracted	_____	_____
	_____	_____
Capital expenditure		
Approved and contracted		
Approved but not yet contracted	_____	_____
	_____	_____
Total commitments	_____	_____
 The expenditure will be financed from:		
External Loans		
Capital Replacement Reserve		
Government Grants		
Own Resources	_____	_____
	_____	_____

ANNEXURE B: GUIDANCE TO DETERMINE WHETHER A COMMITMENT EXISTS AT REPORTING DATE.

Commitments represent goods/services that have been ordered, but for which no delivery has taken place at the reporting date. These amounts are not recognized in the statement of financial position as a liability or as expenditure in the statement of financial performance, but are however disclosed as part of the disclosure notes.

- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but for which goods and services have not yet been received are disclosed in the commitments disclosure note to the financial statements.
- Material contracts entered into after the reporting date but prior to the approval of the financial statements must be disclosed under subsequent events and in the report of the Accounting Officer.
- Other commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note if both the following criteria are met:
 - contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
 - contracts should relate to something other than the routine, business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.



Fezile Dabi

District Municipality

Debt Impairment and Debt Write-Off Policy

Date of approval by council:

Council Resolution number:

DEFINITIONS:

For the purpose of this policy, the following terms have the meanings attributed below:

Definitions:

Bad Debt: - is an amount owed by a debtor that is unlikely to be paid

Bad Debt Write-off: - a process of writing-off irrecoverable debt owed by a debtor after exhausting all avenue available to the municipality to effectively collect the debt.

Contract: - In this policy, contract or contractual refers to an agreement, written or verbal, between the municipality and any person(s) that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law.

Debt impairment: decrease in an asset's net carrying value that exceeds the future undisclosed cash flow that should be generated.

SECTION 1: OBJECTIVES

- a) To outline the municipality's policy on the principles, procedure and accounting requirements and treatment for recognition, measurement, presentation and disclosure of receivables (debtors).
- b) To provide for improvement on the municipality's receivables accounts and financial records by writing-off debts that are not possible to recover.

SECTION 2: LEGISLATIVE CONTEXT

In terms of section 64(12)(e)(f) and (g) respectively of Municipal Finance Management Act, 56 of 2003 (MFMA), the Accounting Officer of a municipality must take all reasonable steps to ensure: -

- a) that the municipal municipality has and maintains a management, accounting and information system which recognises revenue when it is earned; accounts for debtors; and accounts for receipts of revenue;
- b) that the municipal municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed; and
- c) that all revenue received by the municipal municipality, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.

Furthermore, section 96 of Municipal Systems Act provides that a municipality must collect all money that is due and payable to it, subject to this Act and any other applicable legislation; and for this purpose, must adopt, maintain and implement a credit control and debt collection policy which is consistent with its tariff policies and complies with the provisions of this Act.

SECTION 3: SCOPE OF THE POLICY

This policy is applicable to receivables that came about from the provisions of legislation or an equivalent means, such as regulations, by-laws or other document issues in terms of legislation, such as council decisions (statutory receivables), as well as receivables that arise from contractual arrangements entered into (financial instruments).

SECTION 3: POLICY PRINCIPLES

The following principles shall be considered and serve as a guideline in the process to determine impairment and eventually write-off of debt / receivable:

- a) A number of internal and external factors relevant to a receivable or groups of receivables must be considered when performing an impairment assessment.
- b) When the future cash flows of receivables are estimated, both the amount of cash flows that will be received in future, as well as their expected timing must be considered.
- c) If the cash flows are only likely to be received some time in the future, then the effect of time of value for money must be considered where the effect of time value of money is material. The estimated future cash flows must then be discounted using a risk-free rate of interest and if applicable, adjust this rate for any risk specific to the receivable.
- d) Where it is necessary to discount the expected cash flows of a receivable or group of receivables in determining whether it is impaired, the initial effect of that discounting as well as the unwinding of that interest over time, must be included in the amount of impairment loss recognised or as an adjustment to the impairment loss respectively.
- e) Where a receivable or group of receivables is impaired, the municipality will continue to accrue for any normal interest or other charges due to the municipality were this is in accordance with the applicable legislation, regulation or council decision or policy.
- f) Before any debt can eventually be written-off, all the applicable actions, including legal action where appropriate, should have been fully exhausted.
- g) Despite annual impairment provisions that must be assessed for debts, a debt must have been in arrears for (3) three or more years and all avenues have been exhausted by the municipality to collect the outstanding debt. Moreover, in cases of natural persons, a debt may be written-off when a debtor has passed away and the deceased estate is insolvent.
- h) Debt may also be written-off if, for any other reason, the Council deems just and appropriate to warrant a write-off.
- i) No blanket write-off shall be applied for any debt owed to the municipality, each debt will be assessed individually and on the basis of the merits of each individual case, a decision will then be arrived at as to whether a write-off of debt is considered or not.

SECTION 5: PRINCIPLES, PROCEDURES AND METHODOLOGY FOR IMPAIRMENT OF DEBTORS (RECEIVABLES)

5.1 Principles for assessment of impairment provision and uncollectibility of debt

- a) In order to determine the impairment provision, an assessment should be conducted annually at reporting date (i.e June), to determine whether there is any indication that a receivable or group of receivables has been impaired.
- b) A receivable (debtor) or group of receivables (debtors) shall be considered to be impaired in there is an objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the receivable / receivables and that the loss event has an impact on the estimated future cash flows of the receivable or group of receivables that can be reliably estimated.
- c) A receivable shall be assessed for impairment individually when such receivable is individually significant and alternatively receivables shall be assessed as a group.
- d) Where no objective evidence of impairment exist for individually assessed receivable or group of receivables, the municipality shall include a receivable or receivables in a group of other financial assets with similar credit risk characteristics and collectively assess them for impairment.
- e) Receivable(s) that are individually assessed for impairment and for which an impairment loss is recognised is(are) not included in the collective assessment of impairment.

5.2 Methodology for calculating impairment provision and uncollectible debts:

- a) The assessment of debt impairment for receivables, either individually assessed or assessed as a group, shall be done taking into account the assumptions and according to the methodology as outlined below:

First Step:

In determining the impairment provision, the receivables shall firstly be categorised and information relating to the following observable factors or events shall be accumulated, considered and evaluated in order to assess collectability of a receivable or groups of receivables:

- (i) Significant financial difficulty of the debtors;
- (ii) A breach of agreement, such as default on delinquency in interest or principal payments;
- (iii) The municipality, for economic or legal reasons relating to the debtor's financial difficulty, granting the debtor a concession that the municipality would not consider;

- (iv) It is possible that the debtor will enter sequestration or other financial reorganisations;
- (v) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of receivables since the initial recognition of those receivable(s); although the decrease cannot yet be identified with the individual receivable in the group, including:
- Adverse changes in the payment status of the debtor in the group (e.g an increased number of delayed payments) or;
 - National or local economic conditions that correlated with defaults on the receivables in the group (e.g adverse changes in market conditions that affect the debtors in a group).
- (vi) In some cases, the above observable data or events required to estimate the amount of impairment loss on a financial asset may be limited or no longer fully relevant to current circumstances, e.g when a debtor is in financial difficulties and there is limited available historical data relating to similar debtors. In such cases, the municipality shall use its experience judgment to estimate the amount of any impairment loss. Similarly, the municipality shall use its experienced judgement to adjust observable data for a group of receivables to reflect the current circumstances.

Second Step:

Based on the observable factors above, the municipality shall calculate the provision for impairment or uncollectibility of a debt by considering the cash shortfalls it would incur in various default scenarios for prescribed future periods using the following formula:

$$A \times B = C$$

Where:-

A = Default rate (expressed in a percentage form);

B = Gross Carrying Amount of Receivable(s); and

C = Impairment Provision.

Any previously recognised impairment provision must be revised when the expected timing or similar amount of the cash flow to be collected changes.

Third Step:

Determine the estimated future cash flows of receivable(s) using the following formula:

$$A - B = C$$

Where:-

A = Gross Carrying Amount of Receivable(s)

B = Impairment provision, and

C = Estimated future cash flows of Receivable(s)

SECTION 4: PROCEDURES FOR WRITE-OFF OF UNCOLLECTIBLE DEBT / RECEIVABLE

4.1 Debt Write-off

- a) Debts will be written off only when the recovery procedures have proven unsuccessful and further action is either not cost effective or highly unlikely to succeed.
- b) The decision to write off individual debts should include consideration of the cost of recovery action versus the amount of the debt being pursued.
- c) The Chief Financial Officer will recommend, in writing, to the Accounting Officer debts to be written off and such recommendation(s) shall be accompanied by all the necessary supporting documentation.
- d) The Accounting Officer shall review the listed accounts for write-off, together with recommendations and other supporting documents and compile a comprehensive report to be tabled to council to recommend write-off after being satisfied that the recovery procedures have been complied with and that all reasonable attempts to recover debt have been exhausted.

4.2 Authority to Write-Off Debts

- a) The Accounting Officer shall table to council a comprehensive written report recommending write-off of debts.
- b) Only the Council of shall have the authority to approve the final write-off of debt, regardless of the rand value.

4.3 Administration and Management

- a) The Chief Financial Officer shall maintain a register of debts that have been written off which shall be available for audit purposes. The register will record the details of each debt written-off, the council resolutions that approved the write off and any subsequent action to reinstate and recover debt.
- b) In order to prevent unauthorized bad debts journal entries, access to both the cash receipt function and the bad debts recording function on the financial system are to be restricted with no journal adjustments to take place on the debtors' module without specific approval by the Chief Financial Officer or his / her delegate.
- c) In order to provide further assurance of the validity of the accounting information of the debtors accounts, an independent reconciliation between approved adjustments and actual adjustment shall be performed every time after approval and processing of Bad Debts Write-Off journals entries.
- d) A Chief Financial Officer shall ensure that bad debts are written off in a timely manner after approval by the council.
- e) The Chief Financial Officer shall ensure that the General Ledger Accounts Balances are reconciled on a monthly basis to the Subsidiary Debtors Ledgers.

SECTION 6: POTENTIAL RISK OF NON-COMPLIANCE

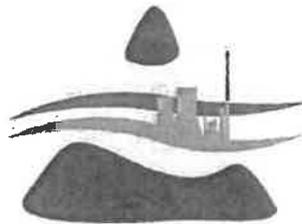
- a) The Chief Financial Officer shall ensure that there are controls in place at all times in order to deal with the following possible risks against debtors' accounts and writing-off of debt:
 - (i) Recovery of debtors with insignificant account balances, where costs of recovery including manpower, postage and collection agent fees outweigh any possible benefit that could be obtained in return;
 - (ii) Unauthorised access to Debtors accounts which may give effect to unauthorised write-off of bad debts;
 - (iii) Lack of proper internal controls systems and segregation of duties. e.g An official who has access to both cash and accounts receivable may take cash and could hide the fact by false bad debt journals;
 - (iv) Failure to provide for debt impairment or failure to write-off of uncollectible debts after approval by the council could result in overstatement of debtors an ultimately affect the fair presentation of the municipality's financial statements.

SECTION 7: REPORTING

- a) All debt impairment provisions and actually written-off / uncollectible debt during the financial year must be reported at all appropriate levels as part of internal reporting and must be reported on and disclosed in the Annual Financial Statement in accordance with the applicable accounting standards.
- b) Impairment losses or any applicable reversals thereof must be recognised and disclosed in the Annual Financial Statements in accordance with the applicable accounting standards
- c) A report of all uncollectible debts written-off shall be submitted by the Chief Financial Officer to the Accounting Officer immediately after approval by the council.

SECTION 8: REVIEW AND APPROVAL

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.



Fezile Dabi

District Municipality

Provisions, Contingencies and Accruals Policy

1. OBJECTIVES

- a) To ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingencies and accruals.
- b) To ensure that appropriate, sufficient information regarding provisions and accruals is disclosed in the notes to the financial statements relating to provisions, contingencies and accruals of the municipality to enable users to understand their nature, timing and amount.
- c) To ensure that provisions, contingencies and accruals are dealt with correctly in the financial statements.

2. LEGISLATIVE CONTEXT

Section (62)(1) of Municipal Finance Management Act, 56 of 2003 (MFMA) stipulates that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:

- a) *that the resources of the municipality are used effectively, efficiently, economically and transparently;*
- b) *that full and proper records of the financial affairs of the municipality are kept;*
- c) *that the municipality has and maintains effective, efficient and transparent systems-*
 - i. *of financial and risk management and internal control; and*
 - ii. *of internal audit complying with and operating in accordance with any prescribed norms and standards;*
- d) *that irregular and fruitless and wasteful expenditure and other losses are prevented;*
- e) *that expenditure is in accordance with the operational policies of the municipality; and*
- f) *that disciplinary or, when appropriate, criminal proceedings, are instituted against any official of the municipality who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15.*

Where the effect of time value of money is material, the measurement of provision shall be the present value of the expenditures required to settle the obligation.

Provisions shall be reviewed at least once at the end of every reporting period and shall be adjusted to the current best estimate. Changes in the measurement of the liability resulting from either a change in estimated timing or amount of the outflow of resources, or a change in the discount rate shall result in an adjustment to the liability already recognised.

Provisions shall be recognized in the accounting records of the municipality only if the following conditions are evident:

- a) a present obligation (legal or constructive) has arisen as a result of a past event
- b) payment is probable ('more likely than not'), and
- c) the amount can be estimated reliably.

The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the balance sheet date, that is, the amount that the municipality would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party.

The following shall be used as the basis to estimate the amount for provision to be recognized:

- a) Provisions for one-off events (e.g. settlement of lawsuit) are measured at the most likely amount.
- b) Provisions for large populations of events (e.g. refunds of consumer deposits) shall be measured at a probability-weighted expected value.

Both measurements shall be at discounted present value that reflects the current market assessments of the time value of money and the risks specific to the liability.

In reaching its best estimate, the municipality shall take into account the risks and uncertainties that surround the underlying events.

If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party (e.g. a contractor contracted to do work for the municipality), the reimbursement shall be recognized as a separate asset, and not as a reduction of the required provision, when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The amount recognized should not exceed the amount of the provision.

Setting off expenditure against a provision that was originally recognized for another purpose would conceal the impact of two different events, and therefore setting-off is not permitted.

6. CONTINGENCIES

6.1 Contingent Liabilities

The municipality shall not recognize contingent liabilities, but shall disclose such contingent liabilities in the notes to the financial statements to the extent that:

- a possible obligation exists, depending on whether some uncertain future event occurs, or
- a present obligation exists, but payment is not probable or the amount cannot be measured reliably

The municipality shall keep an internal register of provisions, which shall be reconciled to the General Ledger at least at the end of the financial year. The register shall contain the following information as a minimum:

- a description of the contingency;
- the officer responsible for the management and settlement of the contingency;
- the value, if the value can be measured reliably;
- the way in which it arose, for example its source; and
- action taken relating to the Contingency, for example action to minimise loss.

6.2 Contingent Assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent asset shall not be recognised in the financial statements of the municipality, but shall be disclosed where an inflow of economic benefits or service potential is probable.

However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and in this case an asset must be recognised in the financial statements.

For all other capital projects that are in excess of R 5 million, a 10% guarantee based on the total contract value shall be required from the appointed contractor.

The following minimum information must be specifically communicated to the service provider / supplier in relation to guarantees and disclosed in the SLA:

- a) The actual amount of guarantee as a percentage of the total project costs (up to a maximum of 50% for turnkey capital projects and 10% for any other capital projects);
- b) Reasons for guarantee required;
- c) Conditions under which guarantees may be lifted;
- d) The timing that must lapse before conditions relating to guarantees can be revisited and verified prior to lifting of such guarantee requirements; and
- e) Procedures that must be followed by the service provider / supplier to withdraw the guarantee when the conditions thereof are no longer applicable.

9. DISCLOSURES

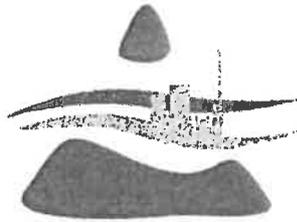
9.1 Provisions

The municipality shall disclose in the notes to the financial statements, reconciliation for each class of provision that will include the following:

- opening balance
- additions
- used (amounts charged against the provision)
- unused amounts reversed
- unwinding of the discount, or changes in discount rate
- closing balance

The municipality shall disclose the following for each class of provision:

- A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.
- An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, a municipality shall disclose the major assumptions made concerning future events.



Fezile Dabi

District Municipality

Subsequent Events Policy

Date of approval by council:.....

Council Resolution number:.....

DEFINITIONS:

For the purpose of this policy, the following terms have the meanings attributed below:

Date of the financial statements: The date of the end of the latest financial year covered by the financial statements.

Date of approval of the financial statements: The date on which the financial statements, including the related notes, have been prepared and the board of directors have asserted that they have taken responsibility for those financial statements.

Date of the auditor's report: The date the Auditor-General dates the audit report on the financial statements.

Date the financial statements are issued: The date the audited financial statements and the Auditor-General's report thereon are presented to the municipality's board of directors and the Council of the parent municipality or otherwise made public.

Subsequent events: Events occurring between the reporting date and the approval date of the financial statements and the date of the Auditor-General's report, and facts that become known to the auditor after the date of the auditor's report.

1. OBJECTIVES

- a) To provide for collating, analysing and submission of sufficient appropriate audit evidence regarding subsequent events that require adjustment of, or disclosure in the financial statements, and
- b) To provide a framework that will ensure that subsequent events are appropriately reflected in the financial statements in accordance with the applicable financial reporting framework.

2. LEGISLATIVE CONTEXT

Section 122(1) of Municipal Finance Management Act 56 of 2003 stipulates that every municipality and every municipal entity must prepare annual financial statements which fairly present the state of affairs of the municipality or entity, its performance against its budget, its management of its revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year, and disclose the information required in terms of section 123, 124 and 125.

On the other hand, section 126(1)(a) of Municipal Finance Management Act 56 of 2003 (MFMA) stipulates that the accounting officer of a municipal municipality must submit financial statements within two months after the end of the financial year to the Auditor-General for auditing. These financial statements must take into account events after the reporting date (i.e 30 June) identified up to the date of submission (i.e 31 August).

3. POLICY PRINCIPLES

- a) Management must at all times ensure that financial statements are prepared within the prescribed accounting framework as issued by the National Treasury from time to time.
- b) Management must ensure that as far as possible, all events applicable as at the end of the financial year (i.e. 30 June) are as far as possible dealt with in the financial statements of the municipality.
- c) Measures must be put in place to provide for detection of any event that arose subsequent to the end of the financial year, which may have effect on the financial statements and reporting of the financial year in question.

- d) Measures must be put in place to ensure timeous amendments of the financial statements in instances where subsequent events necessitates any adjustment, particularly where such events were evidenced prior to the approval of those financial statements and issuing of the Auditor-General's report in relation thereto,
- e) The time period during which the municipality should consider the effect of events after the reporting period runs from the reporting date to the date on which the financial statements are authorised for issue,
- f) In terms of this policy, events that provide evidence of conditions that existed at the reporting date shall be regarded as adjusting events and those that are indicative of conditions that arose after the reporting date shall be regarded as non-adjusting events.
- g) Any subsequent event must be dealt with in terms of this policy.

4. CATEGORIES OF SUBSEQUENT EVENTS

Subsequent events are classified into the following three main categories as dealt with in this policy:

- a) Events which became known between the date of the Financial Statements and the date of the Auditor-General's Report;
- b) Events which become known to the municipality after the date of the Auditor-General's Report but before the date the Financial Statements are issued; and
- c) Events which become known after the Financial Statements have been issued

5. IDENTIFICATION OF SUBSEQUENT EVENTS

Management shall, immediately after the end of the financial year, continuously monitor the operations of and events occurring in relation to the business of the municipality, and where appropriate, assess as to whether any subsequent events have occurred that might affect the financial statements.

This monitoring and assessment shall primarily be focused at the current status of items that were accounted for in the financial statements on the basis of preliminary or inconclusive data.

The following matters shall specifically be paid attention to as part of mechanisms to identify subsequent events:

- a) Whether new commitments, borrowings or guarantees have been entered into;
- b) Whether disposal or acquisitions of major capital assets have occurred or are planned;
- c) Whether there have major changes to the mandate of the municipality in terms of the Delivery Agreement entered into with the parent municipality;
- d) Whether any assets have been destroyed as a result of disaster, sabotage, riots, etc.;
- e) Whether there have been any developments regarding contingencies as initially disclosed;
- f) Whether any events have occurred or are likely to occur that will bring into question the appropriateness of accounting policies used in the financial statements;
- g) Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the financial statements;
- h) Whether any events have occurred that are relevant to the recoverability of assets.

6. POLICY FRAMEWORK FOR DIFFERENT CATEGORIES OF SUBSEQUENT EVENTS

6.1 Events which became known between the date of the Financial Statements and the date of the Auditor-General's Report

Management shall put in place measures to identify and report all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements.

Explanations and any supporting evidence that may be required by auditors of any procedures management has established to ensure that subsequent events are identified, must be provided timeously as requested and in the format as may be prescribed or agreed upon with auditors.

Any adjustment of, or disclosure in, the financial statements in relation to the subsequent event, must be communicated and agreed upon with the auditors prior to application thereof.

Adjustments and / or additional disclosures resulting from subsequent events must be in accordance with the applicable financial reporting framework and must approved by the Chief Financial Officer or duly delegated official in writing prior to application thereof to the financial statements.

Adjusted financial statements, together with any relevant supporting documents in relation thereto must be submitted to the auditors at the date and time agreed upon with auditors.

6.2 Events which become known to the municipality after the date of the Auditor-General's Report but before the date the Financial Statements are issued

If, after the date of the Auditor-General's report but before the date the financial statements are issued, a fact becomes known to management, the Accounting Officer shall:

- (a) Promptly report the matter to the Executive Mayor, the MEC for local government in the Province and the Auditor-General;
- (b) Discuss the matter with the Auditor-General;
- (c) Determine whether the financial statements need amendment and, if so,
- (d) Explain to the Auditor-General how they intend to address the matter in the financial statements.

If management amends the financial statements, audit evidence in the amendments, together with the amended financial statements, must be submitted to the Auditor-General.

6.3 Events which become known after the Financial Statements have been issued

If, after the financial statements have been issued, a fact becomes known to management, management shall:

- (a) Promptly report the matter to the Executive Mayor, the MEC for local government in the Province and the Auditor-General;
- (b) Discuss the matter with the Auditor-General;
- (c) Determine whether the financial statements need amendment and, if so,
- (d) Explain to the Auditor-General how they intend to address the matter in the financial statements.

The Accounting Officer must take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and must amend the financial statements in circumstances where the Auditor-General believes they need to be amended.

If management amends the financial statements, audit evidence in the amendments, together with the amended financial statements, must be submitted to the Auditor-General.

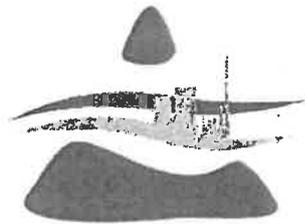
7. DUAL DATING OF THE AUDIT REPORT

Management should take cognisance that, in cases where the Auditor-General amends the auditor's report due to subsequent event to include an additional date restricted to that amendment, the date of the auditor's report on the financial statements prior to their subsequent amendment by management remains unchanged because this date informs the reader as to when the audit work on those financial statements was completed.

However, an additional date shall be included in the auditor's report to inform users that the auditor's procedures subsequent to that date were restricted to the subsequent amendment of the financial statements.

8. REVIEW AND APPROVAL

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.



Fezile Dabi

District Municipality

Unauthorised, Irregular, Fruitless & Wasteful Expenditure Policy

DEFINITIONS

Fruitless and wasteful expenditure: means expenditure that was made in vain and would have been Avoided had reasonable care been exercised.

Irregular expenditure: means expenditure incurred by the municipality in contravention of Municipal Finance Management Act, Municipal Systems Act, Public Office-Bearers Act, 1998 and which has not been dealt with in terms of section 170 of this Act

Unauthorized expenditure: means any expenditure incurred by the municipality otherwise than in accordance the approved budget and includes overspending of the total amount appropriated in the municipality's approved budget; and overspending of the total amount appropriated for a vote in the approved budget.

SECTION 1: OBJECTIVES

- To provide for measures to identify any unauthorised, irregular expenditure or any fruitless and wasteful expenditure;
- To provide for frameworks to avoid any unauthorised, irregular expenditure or any fruitless and wasteful expenditure from being incurred;
- To provide for recovery of irregular expenditure or any fruitless and wasteful expenditure; and
- To provide for reporting on any unauthorised, irregular expenditure or any fruitless and wasteful expenditure.

SECTION 2: LEGISLATIVE CONTEXT

Section 78(1)(c) of Municipal Finance Management Act, No 56 of 2003 (MFMA) provides that each senior manager of a municipality and each official of a municipal municipality exercising financial management responsibilities must take all reasonable steps within that official's area of responsibility to ensure that any irregular expenditure, fruitless and wasteful expenditure and other losses are prevented.

Section 167(2) further states that any remuneration paid or given in cash or in kind to a person as a political office-bearer or as a member of political structure of a municipality otherwise than in accordance with section (1), including any bonus, bursary, loan, advance or other benefit, is and irregular expenditure and the municipality must, and has the right to recover that remuneration from that political office bearer or member and may not write-off any expenditure incurred by the municipality in paying or giving that remuneration.

With regard to disclosure in term of financial management reporting, section 125(2) (d) states that the notes to the annual financial statements of a municipality or municipal municipality must disclose particulars of:

- i. any material losses and any material irregular or fruitless and wasteful expenditures, including, any material unauthorised expenditure, that occurred during the financial year, and whether these are recoverable;
- ii. any criminal or disciplinary steps taken as a result of such losses or such unauthorised, irregular or fruitless and wasteful expenditures; and
- iii. Any material losses recovered or written off.

SECTION 3: POLICY PRINCIPLES

- a) The Accounting Officer shall investigate allegations of unauthorized, irregular or fruitless and wasteful expenditure against any official of the municipality.
- b) If the outcome of the investigation so warrants, disciplinary proceedings shall be instituted against the official(s) concerned in accordance with the provisions of Municipal Finance Management Act 56 of 2003 (MFMA) and the municipality's disciplinary code and procedures.
- c) Where appropriate, recovery of irregular, fruitless and wasteful expenditure shall be instituted by the municipality in accordance with MFMA.

SECTION 4: IDENTIFICATION OF UNAUTHORISED, IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

4.1 Unauthorized Expenditure

Any expenditure incurred by the municipality, for which no appropriation was made in terms of the approved budget, and / or in excess of the limits of the amount appropriated for in the municipality's approved budget or different votes in an approved budget.

The council may in emergency or other exceptional circumstances authorize unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.

Such expenditure shall not exceed 1% percentage of the approved annual budget; and must be appropriated in an adjustments budget which must be passed within 60 days after the expenditure was incurred.

If the adjustment budget in which the unforeseeable and unavoidable expenditure was appropriated is not passed within 60 days after the expenditure was incurred, such expenditure shall be regarded as unauthorized.

4.2 Fruitless and Wasteful Expenditure

Fruitless and Wasteful Expenditure is any expenditure that is incurred for which no benefit is received by the company and would have been avoided had reasonable care been exercised.

4.3 Irregular Expenditure

Irregular expenditure is an expenditure incurred by the municipality in contravention of, or that is not in accordance with the requirements of MFMA, and which has not been condoned in terms of section 170;

Expenditure incurred by the municipality in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

Expenditure incurred by the municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or expenditure incurred by the municipality in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by the municipality which falls within the definition of "unauthorized expenditure"

SECTION 5: TREATMENT OF IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

1. Where irregular or fruitless and wasteful expenditure is identified and discovered, it must be recorded in the appropriate internal register and the Accounting Officer must report it in writing to council in the next available meeting after the occurrence of the expenditure.
2. The Accounting Officer must then promptly inform the Executive Mayor, the MEC for local government in the Province and the Auditor-General, in writing, of the particulars of the unauthorised, irregular, fruitless and wasteful expenditure; and any steps that have been taken to recover such expenditure; and to prevent a recurrence of the expenditure.
3. The Accounting Officer must report to the South African Police Service all cases of alleged irregular expenditure that constitutes criminal offence and theft and fraud that occurred in the municipality.
4. Where appropriate, the Accounting Officer must take appropriate steps to recover the amount from the persons concerned.
5. If the amount is irrecoverable, the Council may write-off in compliance with MFMA and treasury guidelines.

6. The amounts written off must be disclosed in the Annual Financial Statements of the municipality.
7. The Unauthorized, Irregular, Fruitless and Wasteful expenditure register must be updated accordingly according to the various outcomes of the above processes.

SECTION 6: CONSEQUENCES FOR IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

If the Accounting Officer becomes aware that the Council, Executive Mayor, Executive Committee of the municipality has taken a decision which, if implemented, is likely to result in unauthorized, irregular or fruitless and wasteful expenditure, the Accounting Officer is not liable for any ensuing unauthorized, irregular or fruitless and wasteful expenditure provided that the Accounting Officer has informed the Council, Executive Mayor, Executive Committee, in writing, that the expenditure is likely to be unauthorized, irregular or fruitless and wasteful expenditure.

The Accounting Officer is liable for unauthorized expenditure deliberately or negligently incurred by the Accounting Officer.

If a political-office bearer knowingly or after having been advised by the Accounting Officer that the expenditure is likely to result in unauthorized expenditure, instructed an official of the municipality to incur the expenditure; that political office-bearer is liable for the expenditure.

Any political-office bearer or official of the municipality, who deliberately or negligently committed, made or authorised an irregular or fruitless and wasteful expenditure, is liable for that expenditure.

SECTION 7: ACCOUNTING ALLOCATION OF UNATHORISED, IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

If the unauthorized, irregular and fruitless and wasteful expenditure is found to be recoverable from the responsible official in full or in part, a debt must be recorded in the accounting records of the municipality.

In cases where the debt or part thereof become irrecoverable after the initial recognitions, such irrecoverable amount shall be written off, and appropriate recordings be made in the accounting records of the municipality.

Revenue from the recovery of unauthorized, irregular, fruitless and wasteful expenditure is based on legislated procedures including those set out in the MFMA and is recognised when the recovery thereof from the responsible persons or officials is virtually certain."

SECTION 8: IMPLICATIONS FOR THE ACCOUNTING OFFICER

The Accounting Officer commits an act of financial misconduct if he / she deliberately or negligently makes or permits, or instructs another official of the municipality to make, an unauthorized, irregular or fruitless and wasteful expenditure.

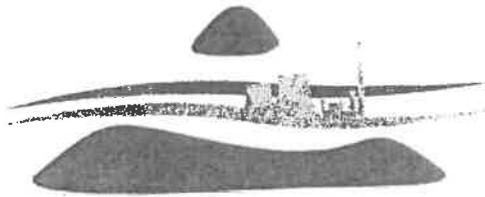
SECTION 9: REPORTING

Management information concerning the status of the disciplinary steps and or criminal proceedings instituted with respect to all unauthorized, irregular, fruitless and wasteful expenditure incurred by the municipality shall be provided to the Chief Financial Officer on a monthly basis. The information should preferably include the date of the incident, a description of the incident and the subsequent steps taken.

Any council approval granted to write off debt owed to the municipality, such approval shall be provided to the Chief Financial Officer on a monthly basis. The approval referred will be in the form of a resolution taken by the Council of Fezile Dabi District Municipality.

10. REVIEW AND APPROVAL

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.



Fezile Dabi

District Municipality

DONATIONS POLICY

Date of approval by council:

Council Resolution number:

FEZILE DABI DISTRICT MUNICIPALITY

Donations Policy

DEFINITIONS

"Act" means the Local Government: Municipal Finance Management Act (no. 56 of 2003).

"Constitution" Constitution of Republic of South Africa, 1996

"Council" means elected council of the Fezile Dabi District Municipality.

"Councillor" means an elected member of the council.

"Donation" in the context of this policy, it means monetary consideration, goods, services, immovable property, or any other item of value.

"FDDM" Fezile Dabi District Municipality

"MFMA" Local Government: Municipal Finance Management Act 2003, Act No. 56 of 2003

"Official" means any person in the employment of the Fezile Dabi District Municipality.

"Structures Act" means Local Government: Municipal Structures Act 1998, Act No. 117 of 1998

"System Act" means Local Government: Municipal Systems Act 2000, Act No. 32 of 2000

FEZILE DABI DISTRICT MUNICIPALITY

Donations Policy

1. OBJECTIVE OF DONATIONS POLICY

- To provide a framework within which the municipality can grant donations.
- To promote and maintain an effective system of granting donations in an ethical, compliant and consistent manner with relevant legislations and other approved council policies.

2. POLICY STATEMENT

There are occasions when the Council receives requests from various members of the community, organizations for donations. As with all other expenses, the council or the accounting officer must exercise prudent business judgment in considering proposed expenditure in relation to the granting of donations, based on the specific request, allowability allow ability and the availability of funds.

3. BACKGROUND

The Council has an obligation to comply with its internal and external audits, financial management reporting and to be accountable to the community for its expenditure on donations.

This policy framework, therefore, aims to set out principles and provide guidelines when the council decides to grant donations.

4. LEGISLATIVE FRAMEWORK

This policy, in its entirety, shall be read in conjunction with the following legislation and policies:

The Constitution; according to which-

- a) A municipality's functions are entrenched in section 156 and 219;
- b) Section 156 provides for a municipality's legislative and executive functions, whilst section 219 relates to a municipality's fiscal powers.
- c) A municipality can only act within its constitutional powers and functions. In other words, in achieving its objects as set out in section 152 of the Constitution, the municipality does not have a free will to do, but is limited by its powers and functions.
- d) A municipality must strive to achieve the *objects* through the exercise of its constitutional powers and functions.
- e) A municipality may also perform other functions on behalf of another organ of state by means of agency or delegation as set out in section 238 of the Constitution.

FEZILE DABI DISTRICT MUNICIPALITY

Donations Policy

The Structures Act, whereby-

In terms of section 83(3), "a district municipality must seek to achieve the integrated, sustainable and equitable social and economic development of its area as a whole..."

In terms of section 84(1), A district municipality has the following functions and powers:

- a) Integrated development planning for the district municipality as a whole, including a framework for integrated development plans of all municipalities in the area of the district municipality.
- b) Potable water supply systems.
- c) Bulk supply of electricity, which includes for the purposes of such supply, the transmission, distribution and, where applicable, the generation of electricity.
- d) Domestic waste-water and sewage disposal systems.
- e) Solid waste disposal sites, in so far as it relates to—
 - (i) the determination of a waste disposal strategy;
 - (ii) the regulation of waste disposal;
 - (iii) the establishment, operation and control of waste disposal sites, bulk waste transfer facilities and waste disposal facilities for more than one local municipality in the district.
- f) Municipal roads which form an integral part of a road transport system for the area of the district municipality as a whole.
- g) Regulation of passenger transport services.
- h) Municipal airports serving the area of the district municipality as a whole
- i) Municipal health services.
- j) Fire fighting services serving the area of the district municipality as a whole, which includes—
- k) planning, co-ordination and regulation of fire services;
 - i. specialised fire fighting services such as mountain, veld and chemical fire services;
 - ii. co-ordination of the standardisation of infrastructure, vehicles, equipment and procedures;
 - iii. training of fire officers.
- l) The establishment conduct and control of fresh produce markets and abattoirs serving the area of a major proportion of the municipalities in the district.
- m) The establishment conduct and control of cemeteries and crematoria serving the area of a major proportion of municipalities in the district.
- n) Promotion of local tourism for the area of the district municipality.
- o) Municipal public works relating to any of the above functions or any other functions assigned to the district municipality.
- p) The receipt, allocation and, if applicable, the distribution of grants made to the district municipality.

FEZILE DABI DISTRICT MUNICIPALITY

Donations Policy

- q) The imposition and collection of taxes, levies and duties as related to the above functions or as may be assigned to the district municipality in terms of national legislation.
- r) In terms of Section 89, in district management areas, the district municipality has all the municipal functions and powers.

Systems Act, whereby-

- a) A municipality has all the functions and powers conferred by or assigned to it in terms of the Constitution, and must exercise them subject to Chapter 5¹ of the Municipal Structures Act.

MFMA, in which;

- a) In terms of section 15, a municipality may, except where otherwise provided in the Act (MFMA), incur expenditure only in terms of the approved budget; and within the limits of the amounts appropriated for the different votes in an approved budget.
- b) In terms of Section 65 (1), the accounting officer is responsible for the management of expenditure of the municipality;
- c) In terms of Section 65(2), the accounting officer must take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds; and
- d) In terms of section 67, the transfer of funds to organisations and bodies outside any sphere of government otherwise than in compliance with a commercial or other business transactions, may only happen in terms of this section.

5. PROCEDURAL PROVISIONS WHEN MAKING DONATIONS

- a) Requests for donations will be done in a prescribed format approved by council. All requests for donation shall be directed to the Accounting Officer or the Executive Mayor or any other duly authorised official of the municipality.
- b) As a minimum, all requests for donations should provide for the following information of the person / organisation requesting donation:
 - i. Identity of the organisation or institution, i.e Legitimate registration documents
 - ii. Identify the executive members of the organisation
 - iii. Physical address
 - iv. The main business
 - v. Intended use of the donation
 - vi. The value of the donation

¹ It relates to the division of power between local and district municipalities

FEZILE DABI DISTRICT MUNICIPALITY

Donations Policy

- c) The municipality may lawfully make donations to organization and institutions, provided-
- i. that the request is received in an format and manner as may be prescribed by Fezile Dabi District Municipality;
 - ii. that the donation is approved by the Accounting Officer and the Executive Mayor;
 - iii. that the granting of donation is done taking into account the provisions of section 15 of MFMA;
 - iv. that the donation is in relation to any of the local government functions and powers listed in Parts B of Schedules 4 and 5 of the Constitution, section 83(3) and 84(1) of the Systems Act (*refer to paragraph 5 above*), or any other matter assigned to it by the national or provincial governments;
 - v. that the donation can rationally be aligned to the effective performance of any of those functions and powers;
 - vi. that section 67 of the MFMA is complied with to the extent practically applicable; and
 - vii. that the organisation or institution receiving the donation is willing to sign a donation agreement with the municipality where applicable.
- d) Requests for donations may be received from various, organizations and institutions. It is the prerogative of the municipality to grant or deny a donation.

6. CLASSIFICATION OF ORGANISATIONS AND BODIES

For the purpose of this policy framework, organizations and bodies will be classified as follows for eligibility to request donations:

- a) Institutions of learning
- b) Special institutions e.g the DPOSA (Disabled People of South Africa)
- c) Religious institutions
- d) Co-operatives
- e) Social clubs
- f) Community –based organizations
- g) Section 21 companies (not for gain companies)
- h) Sporting clubs
- i) Cultural organizations
- j) Human Rights organizations

FEZILE DABI DISTRICT MUNICIPALITY

Donations Policy

7. LIMITATIONS AND PROHIBITIONS

- a) No donation may be granted to an organisation or institution without explicit approval by the Accounting Officer and the Executive Mayor.
- b) No donations or grants may be made to any organization or institution where such organization or institution has its permanent physical address or the head office outside Fezile Dabi District Municipality area of jurisdiction.
- c) No members of the council, or official of the municipality, severally or collectively, may solicit, receive or expect to receive any favour in return from an organisation or institution granted donation by the council.
- d) The donation of immovable property must be done in accordance with section 14 of the MFMA.
- e) No donations or grants may benefit any member of council, or an official of the municipality, unless the Accounting Officer and the Executive Mayor has approved such donation fully aware of this fact.
- f) The granting of a donation to individuals ~~is strictly~~ is strictly prohibited.
- g) No donations may be granted to organizations or institutions whose primary objectives and their business activities are linked to a motive of making profit.
- h) The Accounting Officer and the Executive Mayor may only approve donations up to a maximum of R 20 000.
- i) Any donation exceeding an amount of R 20 000 shall be approved by the Council.
- j) No donation may be granted to a political party, or any other structure or body that is affiliated to a particular political party.

8. CONSEQUENCES OF NON-COMPLIANCE

Any donation granted contrary to the provisions of this policy; constitute unauthorized, irregular or fruitless and wasteful expenditure; and the provisions of section 32 of the MFMA shall apply.

9. REPORTING

- a) The council may require that an organization or institution granted a donation, must report to the accounting officer of the municipality on the actual expenditure against the donation on a monthly basis or on request;
- b) Failure to report to the accounting officer as requested shall automatically disqualify the organization or institution for further donation and section 67(2)(a)and(b) shall apply; and
- c) Where appropriate, to comply with financial management and auditing requirements as may be stipulated.